

Report subject	<b>Hawkwood Road Phase 2 update</b>
Meeting date	4 February 2026
Status	Public Report (Exempt appendices)
Executive summary	<p>This report provides an update on Hawkwood Road, which is a priority project for the Boscombe Towns Fund. In February 2025 Council, resolved to approve the funding strategy for a mixed-use residential-led scheme with a clinical facility in collaboration with the NHS (Option 1).</p> <p>The Cabinet recommendation to Council included an obligation to have a contract in place with the NHS prior to award of the build works contract for the main construction. Despite a Memorandum of Understanding between the NHS and BCP Council being signed in December 2024 and best endeavours, a final contract has not been entered into with the NHS. To maintain delivery, this report seeks authority to proceed to award the build contract for the main construction to ensure that the grant milestones for the Towns Fund programme and Homes England are satisfied and thereby safeguard the total grant of £17.3m.</p> <p>This will allow for continued discussions with the NHS and ensure that the significant social and physical regeneration to the ward of Boscombe West and the local need is not lost.</p> <p>There is a continued commitment to have a health provision at Hawkwood Road, but in the event the NHS cannot proceed, this report seeks authority to market the property as general commercial use as the preferred alternative strategy now due to funding timelines being unachievable for a new residential scheme which would require planning. The 100% residential scheme (Option 2 in the previous Cabinet report) would require a new design and planning application and tender, which is likely to result in higher pricing and therefore is not deliverable within the immediate need to start on site in 2026/2027 and deliver by 2028/2029.</p>
Recommendations	<p><b>It is RECOMMENDED Cabinet recommends to Council that:</b></p>

	<ol style="list-style-type: none"> <li>1. Approval to proceed with Option 1 to enter the build contract for 68 homes and commercial floorspace, prior to executing an Agreement to Lease for the ground floor of Block A, to secure the total combined grant of £17.3m and redevelopment of the Hawkwood Road site within the external funder's timescales.</li> <li>2. Authority to market the non-residential property as general commercial, if the NHS is unable to commit funding for the ground floor of Block A and noting the full residential scheme is no longer deliverable.</li> <li>3. Authority to proceed to sale or long leasehold of the ground floor commercial asset to ensure a funding strategy is secured to offset the cost of building.</li> </ol>
Reason for recommendations	To enter the build contract in line with the current active tender and grant funding milestones prior to the lease of the ground floor being signed. This will enable the Council to achieve the funding deadlines set by MHCLG and Homes England and ensures the project remains deliverable.

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Wards	Boscombe West;
Classification	For Recommendation

## Background

1. In February 2025, Full Council resolved to approve the Hawkwood Road project, Phase 2 (which had been recommended by Cabinet on 10 December 2024). This included the funding strategy and additional borrowing to support the scheme to proceed to development. This approval was for Option 1 – 68 homes (owned and managed by the Council at Social rent) and an NHS medical/clinical facility with the caveat that the scheme would not move into delivery without a lease signed by the NHS. Option 2 was approved in the same paper as the alternative strategy and proposed 76 socially rented homes. This option is no longer deliverable within the grant funding timeframes and therefore this report proposes that the Council proceed to award the build contract and

market the ground floor use as general commercial in the event the NHS is not able to proceed to a formal rental agreement or acquisition.

2. Since the previous Cabinet authority, good progress has been made to secure the delivery of much needed new affordable homes. Following negotiations with Homes England, £9.7m grant has been secured for the scheme – the largest allocation for any scheme led by BCP Council. Further review of the build costs were carried out to ensure the scheme is as efficient as it can be which resulted in a lower scheme cost to that approved by Cabinet and Council. A Memorandum of Understanding (MoU) was completed with an Agreement for lease to follow by Jan 2026 to enable contracts for the main works to be awarded. At the time of writing this report, negotiations with the NHS are still on-going.
3. In January 2025, the tender for the construction of Hawkwood Road phase 2 (option 1) was published, with a deadline for tender returns of 2 May 2025. Tenders were received with the tender prices being valid for 6 months taking this to 2 November 2025. Due to the ongoing NHS business case approval process, this was extended by agreement of tenderers to 2 March 2026, to satisfy the Cabinet authority which required a formal contract with the NHS prior to award of the main build contract.
4. Subject to Cabinet approval, the intention is to award the build contract to allow for further negotiations with the NHS and maintain delivery to satisfy the grant milestones. This is at risk on the income for the ground floor commercial but is considered necessary to mitigate the greater risk of losing c.£17m and the reputational risk of non-performance with external funders.
5. The Council remains committed to offering a NHS healthcare within the Hawkwood Road masterplan given the indices of deprivation and the need for better health outcomes. The Council continues to explore options with NHS Dorset and partners to develop a neighborhood health centre to complement the community centre and housing offer.
6. The Council has negotiated a grant allocation of £142,500 grant per home (£9.65m total) for 68 homes, which is a higher-than-average grant amount per unit allocation by Homes England and reflects the viability pressures of the scheme. The condition of the grant requires that the build must start on site in April 2026 and complete by March 2029. The Towns Fund grant (c.£7m) requires full spend by 2028. These timelines are under significant pressure due to the time taken to satisfy the previous Cabinet authority that required the NHS to have signed the agreement for lease, which meant the build contract is 4 months behind programme. Further delays would mean the Council is unable to drawdown the grant and that would make the scheme unviable.
7. Additionally, the approval for Option 2 (78 homes and removal of commercial use in Block A) is no longer achievable within the external funders' grant timeframes. Option 2 would require a new business case as the grant would be lost due to the revised scheme needing a new planning application (likely to prolong the programme by over 12 months) and a re-tender of the build contract which is likely to result in higher costs and prices compared to the current tenders being held.
8. Bringing forward option 2 would also require the Council to confer with the MHCLG to seek approval to transfer the Towns Fund grant allocation to the 100% residential scheme. This would be contrary to the wishes of the Towns Fund Board which adds risk to the project who will wish to retain a health offer for the community. Additionally, a new application for grant would need to be made as the current grant for 68 homes is under the old programme and therefore if the Council doesn't proceed to build, we would be required to bid in the new programme which is likely to be highly competitive and therefore puts the funding strategy at risk.

9. Option 2 has therefore been replaced with the alternative option of awarding the build contract with the 68 homes and commercial use, to be marketed in the event the NHS does not commit financially to the scheme. The main benefit of proceeding with this alternative is because it presents the lowest risk, is deliverable within the current funding programmes and satisfies the draw-down requirements of both external funders, Homes England and MHCLG. To de-risk the income for the ground floor commercial use, marketability will be improved by widening the current consented uses. A planning application has been submitted to vary the consented use from medical to include a range of commercial, which provides flexibility to the NHS partners and any other commercial opportunity.
10. Therefore Option 2 as approved by the previous Cabinet report, is no longer recommended as it is not achievable within the timescales and would mean £11m is at risk of being lost.
11. The HRA Business Plan has sufficient capacity for this development in the forms recommended in this paper, the Hawkwood Road financial modelling has been tested as a scheme in the HRA with a payback period over a 50-year period. Appendix 1 shows sensitivity analysis with different interest rates and different rent inflation increases over the life of the buildings.

## Options Appraisals

### 12. Option 1. 68 apartments as originally approved, with NHS use of health provision or commercial use on ground floor of block A

- 12.1. The scheme with planning consent consists of 68 residential apartments spread across three individual blocks, A, B and C, with 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.
- 12.2. While providing much-needed affordable homes, this option will deliver other public benefits by bringing health provision opportunities into the community.
- 12.3. The 68-home scheme remains unchanged and therefore deliverable within the existing planning consent. To allow for a broader commercial use for the ground floor a new full planning application will be required. As with Option 1 this will deliver many other public health benefits by bringing a new commercial unit to Boscombe, driving commerce in the area as well as overall economic development.

Block A Social Rent	No. Homes	Block B Social Rent	No. Homes	Block C Social Rent	No. Homes	Block A	No.	Total
1b2p flat	8	1b2p flat	6	1b2p flat	8	Medical/ Commer cial/retail 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	

### 13. Option 2. 100% residential if no agreement was reached with the NHS approval

This would require a new business case as the grant timeframes cannot be achieved and therefore is no longer recommended. A new planning application will

be required for this option to proceed. The preparation of the planning application would take several months and new consultants will need to be procured, additional revenue budget for surveys (which it currently does not have) and will need over 12 months including a new tender which means this falls outside of the grant funding milestones and £7m would need to be handed back to MHCLG. Given timing of when a new scheme would be tendered, the likelihood is this would also increase the cost of development with tender prices likely to reflect higher build costs. This would also require a new bid to Homes England and there is no guarantee that the negotiated grant rates will be secured and could mean a lower grant or worse, no grant award.

#### 14. Milestone comparison (Option 1 and 2)

Milestone	Option 1	Option 2	Deadlines
Start on Site (SOS)	June 2026	July 2027	MHCLG Spend 31/03/2028
Practical Completion (PC)	June 2028	July 2029	Homes England Start works June 2026 and Complete works March 2029

### Benefits

15. The main outcome of this development is the regeneration of the area including provision of 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. This is the case whether Option 1 or 2 are taken forward. Discussions are continuing with the NHS and the Council endeavors to reach a place where in the discussions the NHS are able to sign an agreement for lease and tenancy. Investment by The NHS will help the local residents in an area of deprivation (Boscombe is ranked 978 out of 32,844 in England, where 1 is the most deprived and 32,844 the least, 2015), with current proposals as a Health Centre. Should this avenue not be available to the Council, it is understood engagement with the market to find an appropriate tenant for the commercial unit is the right way forward, whilst safeguarding the vision of the masterplan.
16. A local lettings plan will allow operations to ensure tenancies of the proposed homes complement the vision for the project and the community it serves. Local lettings plan-outline who the project is benefiting.
17. Savings to spend for the Parking team associated with Hawkwood Road Main Car Park can be achieved through delivery of this project.
18. This scheme is part of the Towns Fund project which is a transformational place-making project within Boscombe. Other parts of the Towns Fund Project include investment in skills, public WIFI, Woodland Walk, Shop fronts and many others. These projects will benefit local people and jobs – additional jobs secured through the construction phase of Hawkwood Road (Phase 2) and Community Centre (Phase 1) will be monitored.

### Summary of financial implications and Value for Money

19. The following table shows the cost and funding changes that have taken place since February 2025 council approval (more detail shown in confidential appendix 1):

Scheme name: Hawkwood Road Option 1	HOUSING REVENUE ACCOUNT - 68 social rent homes			GENERAL FUND		
	Social rent (February 2026)	Social Rent (cabinet members Apr 2025)	Social Rent (Cabinet Dec. 2024)	Commercial unit & kiosks (February 2026)	Dental College & Kiosks (cabinet members April 2025)	Dental college & Kiosks (Cabinet Dec. 2024)
	£	£	£	£	£	£
<b>Total scheme cost</b>	<b>22,210,320</b>	<b>22,541,500</b>	<b>23,791,000</b>	<b>1,701,297</b>	<b>3,478,500</b>	<b>4,866,000</b>
<b>Funding</b>						
Grants - Homes England	(9,656,000)	(9,656,000)	(9,510,000)			
Grants - Towns Fund	(7,741,000)	(7,741,000)	(5,763,000)	(290,000)	(290,000)	(1,675,000)
Shared Ownership			(2,425,000)			
<b>Total non-debt funding</b>	<b>(17,397,000)</b>	<b>(17,397,000)</b>	<b>(17,698,000)</b>	<b>(290,000)</b>	<b>(290,000)</b>	<b>(1,675,000)</b>
<b>Borrowing requirement</b>	<b>(4,813,320)</b>	<b>(5,144,500)</b>	<b>(6,093,000)</b>	<b>(1,411,297)</b>	<b>(3,188,500)</b>	<b>(3,191,000)</b>
<b>Total Funding</b>	<b>(22,210,320)</b>	<b>(22,541,500)</b>	<b>(23,791,000)</b>	<b>(1,701,297)</b>	<b>(3,478,500)</b>	<b>(4,866,000)</b>

20. The overall Hawkwood Road phase 2 scheme cost has reduced from £28.7 million to £23.9 million.
21. The Housing Revenue Account (HRA) scheme costs have reduced from £23.8 million to £22.2 million following the receipt of tender prices.
22. The General Fund (GF) scheme costs have decreased from £4.8 million to £1.7 million due to a combination of tender prices and change of development configuration from fully fitted to shell and core.
23. The non-debt funding in the HRA has reduced from £17.7 million to £17.4 million due to removal of capital receipts from shared ownership, additional Homes England grant secured and realignment of the Towns Fund grant use including change between the HRA and general fund in this scheme. The changed funding strategy was approved by cabinet members in April 2025.
24. Due to the reduced scheme cost overall, the borrowing requirement in the HRA has reduced from £6.1 million to £4.8 million and in the general fund from £3.2 million to £1.4 million.
25. The post construction cash flow assumptions for the financial appraisal viability have been updated with the following current expectations:

Cash flow assumptions	
Service Charges (Cost) per unit per annum	£828
Service Charges (income) per unit per annum	(£496)
Revenue Maintenance per unit per annum	£886
Major Repairs per unit per annum	£1,630
Management cost per unit per annum	£400
Prevailing interest rate for HRA as of 29/12/2025	5.33%
Prevailing interest rate for GF as of 29/12/2025	5.73%
Rental income adjustments for voids and bad debt (HRA)	1%
Rental income adjustments for voids and bad debt (Kiosks)	6%

26. The cash flow summary in confidential appendix 2 shows the residential part of the scheme in the HRA, generating between £23,443 and £34,514 annual average contribution to the HRA over 30 years depending on interest rates applied and a cumulative contribution between £703,294 and £1.04 million at

year 30 again depending on interest rates applied. It is estimated that the HRA will need to subsidise the scheme with approximately £16,000 to £21,000 on average per annum in the first 10 years, before reaching breakeven point after construction.

27. The cash flow for the commercial space and kiosks in the general fund shows that an average between £21,000 and £175,000 per annum over 30 years could be realised depending on rental income achieved. The model shows that the council could be at risk to initially subsidise borrowing up to a cumulative £107,000 depending on rental income achieved. This would increase if there were longer void periods and rent-free incentives periods.
28. The council has received enquiries about letting all four kiosks and for the commercial space, whilst the NHS has withdrawn support for an oral health institute and is investigating other possible NHS use. The borrowing exposure of the commercial space is £920,320 with an annual repayment of £71,141 over 50 years at the PWLB prevailing interest rate of 5.73% as of 29 December 2025.
29. The borrowing exposure may be mitigated with potential underspend in other areas of the regeneration fund programme which could be redirected towards this scheme.
30. This report seeks approval to proceed at risk before securing rental income to repay the loan required to build the development as per the current tender specifications. A recent report and valuation of the site expressed significant concerns about if the Council to be proposing to proceed, as now is the case, without a pre-letting agreement for use. Whilst it is possible that some businesses may have a defined need for a specific Boscombe location, general market perception is a low need for space in this area. The configuration of the ground floor layout offers a degree of mitigation with effective subdivision.
31. With this information in hand, it is clear the council will struggle to demonstrate the affordability of the prudential borrowing for the commercial space and therefore value for money for this project under the legislative prudential code.
32. However, the council needs to balance the borrowing exposure of £920,000 (excl. land and kiosks) against the potential loss of £9.6 million Homes England grant and the loss or redirection of £7.7 million Towns Fund grant resulting in a lost opportunity to deliver 68 social rent homes in the Boscombe area.
33. In addition, there may be unfunded maintenance and security costs if the premises are not let.
34. The council will need to prioritise the estimated £71,141 debt repayment and any incidental maintenance and security costs, increasing the MTFP gap if the premises are not let.

## **Risks**

35. The largest risk entering the Build contract for Option 1 without the Ground Floor of Block A let, is the risk of income to support the loan required to build the property. Alternative uses have been estimated (as per valuation at Appendix 3 and advice from Estates Team) at c£74,656/pa for shell and core as per recent enquiry.
36. Concerns about primary market letting opportunities in the Boscombe area and ability to let or achieve market value.
37. The configuration of the ground floor layout militates against effective subdivision increasing the risk of additional costs as landlords to remodel the layout before it can be let. Unknown market expectations regarding shell and core specification may increase landlord costs further.
38. Extension of the build contract tender for Option 1 will require all tenderers to agree to a delayed end date, if any tenderer declines, the tender must be collapsed, which will necessitate a new build tender to be issued – this will cause further delay to the project and be an additional risk to external grant funding. Moving forward with Option 2 provides additional risk of losing Homes England (£9.656m) and the loss of grant or need to redirect the use of grant from MHCLG (£7.4m) due to project delay and inability to achieve required milestones.
39. Progression of Option 2 requires collapsing the current build tender, which causes project delay and greater risk to external grant funding to ensure scheme viability.
40. The major repairs assumption has been updated to £1,630 per annum per unit considering the total build cost includes a high proportion of infrastructure (car park resurfacing, highway works, pocket park etc.).

#### **Unchanged Risks Relating to The Housing provision**

41. 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.
42. 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%, prevailing interest rates of 5.33% in the HRA and 5.73% in the general fund, making viability of the project more vulnerable.
43. Whilst the preferred contractor has come in comfortably under budget, viability of the model is reliant on the construction costs being held at the current bid level. Any increase from this amount introduces risk into the project overall financially. However, the requested extension of time increases the risk of construction costs rising over the extended tender period.
44. Cost contingency is assumed at 10% to allow for build cost fluctuations.



## **Prudential Borrowing**

45. 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 £4,8 million in the HRA and £1.2 million (excl. land value) in the General Fund (option 1) repaid over 50 years at an annual interest cost using an estimated rate 5.33% in the HRA and 5.73% in the general fund (PWLBS prevailing rate 29 December 2025). Previous modelling with estimated lower future forecasted interest rates have not been progressed because lower interest rates expectations have not been realised to date.
46. Appendix Two demonstrates a positive contribution to the HRA over the 50-year period. 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. Financial modelling assumes the use of fixed rates funding for the schemes repaid on a maturity basis.
47. Affordability for the commercial space in the general fund is high risk at the time of writing; the council will need to prioritise the estimated £71,141 per annum for 50 years debt repayment, increasing the MTFP gap if the premises are not let.

## **Taxation and Public Sector Subsidy**

48. 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, which have been accounting from in modelling. Any VAT incurred by the Council on social housing construction is fully reclaimable under section 33 of the VAT Act.
49. Further tax advice should be sought if the properties are sold or leased at market rent.
50. The construction of the community centre and the commercial 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.
51. Particular care should be taken when negotiating the terms of the lease for the medical facility, especially regarding fit out costs and any rent-free period. If the NHS undertakes work on 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.
52. Subsidy Control is applicable as State resources are given to the Council, in terms of grant from MHCLG and Homes England.

### **Summary of legal implications**

- 53. The Council is empowered by Section 1 Local Government Act 2003 to borrow funds for any purpose related to its functions and/or for the purposes of the prudent management of its financial affairs. The project team will need to be confident that the proposal to enter contract now (before the commercial space is let) supports the provision of housing in accordance with the Council's housing duties.
- 54. Legal advice will continue to be sought regarding the agreement for lease including negotiation of legal documents required for the medical facility or alternative commercial space.
- 55. 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.
- 56. The Council will need to comply with all grant funding conditions that apply to this project.

### **Summary of human resources implications**

- 57. 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. No Implications.
- 58. Other professional services have also been procured e.g. architects to bring this scheme forward.

### **Summary of sustainability impact**

- 59. 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.
- 60. A carbon reduction statement will be completed to measure the sustainability of the development through carbon savings.
- 61. 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**

62. Both options of the site deliver significant public health benefits to Boscombe West, a ward that suffers from various challenges. 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

63. Equality Impact Assessment remains unchanged as the scheme that this paper asks for the same scheme that was initially approved in the September Cabinet.

### Summary of risk assessment

64. Property development activity involves inherent risks, but a cautious approach has been adopted here to minimise these risks as much as possible. Financial contingencies for build have been included at 10%, and significant consultation has been undertaken to date to help ensure a sustainable scheme.

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
A Vacant ground floor	Medium	Continuing discussions with the other parts of the NHS in order to partner as well as consulting with medical and commercial surveyors to position the space competitively on the open market if needed. A reasonable void period has also been factored into cash flow and borrowing requirement. Marketing within the build programme VW report
Rising construction costs render the project unaffordable	Medium	There is high risk if the build contract is not awarded Award the build contract subject to approvals (such as tenderers refusing to a later end date,
Alternative tenants for the property not able to be found	Medium	Active marketing of the property. Increase use class via planning permission.
Scheme not gaining satisfactory planning consent for Option 1 Commercial use	Medium	Current planning consent is for Use Class E(e) healthcare rather than general commercial use. A new planning consent is required.
Insufficient funding available, such as failure to secure funding from s106 Contributions, RTB receipts or Homes England grant, including loss of allocated funding	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. MHCLG and Homes England funding has been confirmed which helps scheme viability.

### Background Papers

[Cabinet December 2024](#)  
[Council February 2025](#)

## **Appendices**

Appendix 1 Outlay and finding  
Appendix 2 Financial Summary