APPENDIX A : ALDERMAN MOORES DEVELOPMENT - KEY BACKGROUND INFORMATION

1. Summary

This report seeks support to enter into a construction contract with Willmott Dixon at Alderman Moore's site in Ashton Vale to build a mixture of 53 new council homes and 80 homes for sale. Cabinet approval was obtained in March 2017 to enter into a Development Agreement with Willmott Dixon (WD) to secure a satisfactory planning consent for the proposed development, with requirements for a further report to be brought back to Cabinet to approve the financial package of the construction phase.

The project seeks to deliver a high quality sustainable housing scheme (valued at £30m) which exceeds planning policy requirements by providing 40% affordable homes (social rent) and at the same time find more imaginative ways to help fund the cost of building of council homes. The idea is to use the expertise of WD as developers to project manage the homes for sale and for the resultant receipts to cross fund the cost of building council homes.

By finding ways to help part fund the construction costs of council homes helps balance the HRA Business Plan and produces a healthier return on the council's initial investment. Under the new build programme the average blended cost of constructing council homes is estimated at £170k per home. By adopting a cross subsidy arrangement for this development this cost is reduced to an average of £88,600 per home. This is reduced even further to £34,000 per home after allowing for 1-4-1 RTB receipts to be taken into account.

This project is the phase 3 of the Council House New Build Programme, which supports the ambition of the Mayor and the City Council to increase the supply of new homes in the city, whilst help tackle some of the most acute housing needs, including: larger homes to help alleviate overcrowding issues in central wards, to provide downsizing opportunities for those being affected by the changes to welfare benefits and also to assist with tackling homelessness in the City.

2. Background

Homes and Landlord Services have Cabinet approval for a new build programme for the construction of council homes. Since the commencement of the programme in 2014, 81 new homes have been constructed on 21 sites. A further 64 homes, across four sites, are under construction for completion during 2018 -2019. Phase 4 of the development programme will see a further 12 sites being progressed to deliver approximately 250 homes over the period 2019-2021.

The Alderman Moores project is phase 3 of the new build council housing programme. Cabinet approval was obtained in March 2017 to (i) appoint WD to secure a satisfactory planning consent for the development of Alderman Moore site in Ashton Vale, (ii) to formalise and agree the fixed price costs of the construction, and (iii) to carry out the necessary works to form the access to the development.

The 2017 March Cabinet approval required a further Cabinet report once the financial implications of the scheme were fully understood and the risks identified. The purpose of this report is to inform and approve, as part of the run to Cabinet in September, for the construction phase having:-

- secured a satisfactory planning consent for the development in March 2018
- formalised and agreed final fixed price costs of the scheme with Willmott Dixon

- Provided a temporary access to the site through the Silbury road children's home, temporarily relocated the children's home (pending a permanent move to a 4 bed council owned void in Henbury) and secured the vacated home pending imminent demolition which is scheduled for July 2018.

The Cabinet Member for Homes has been briefed on the Council House new build programme, and the current proposals for the HRA development at the Alderman Moores site, and has given his support to the proposal which now requires final Cabinet approval for the funding of the project.

3. Proposal

The Alderman Moores site is owned by the council and held within the control of the HRA. The proposal for the development of the site is a mixed tenure development of 133 new homes. The initial brief for the project was to go beyond planning compliant (30% affordable homes) and achieve a level of 40% affordable homes which will all be social rented council homes. The remainder of the new homes constructed will be sold, the proceeds being reinvested to support the funding of the construction of new council homes on this site.

The financial arrangements set out in Appendix A of this report, can be summarised as follows:-

- Total scheme costs (council and sales and includes Contingency) £24.14m
- Income from sales (and anticipated RHI payments) £19.4m
- Total residual investment required by HRA £4.74m

The council will be able to use £2.9m (30%) of 1-4-1 RTB receipts which is based upon the cost of constructing the council units plus a proportion of the infrastructure costs. In overall terms, the use of RTB receipts results in a net cost to the HRA of **£1.84m.**

If the HRA wanted to produce a completely self- financing scheme (i.e. nil cost to the HRA) the ratio of the mix of development of 60 /40 would need to change to 75/25 which would not meet planning policy requirements or the original brief.

The council appointed Wilmot Dixon as its partner contractor in May 2017, through the Scape Framework procurement route and have signed a Delivery Agreement for the whole project including the construction of the project. There are break clauses in the agreement which would allow us to cease the process at this point if the scheme did not get Cabinet Approval.

The Proposed development will see 133 new homes constructed, made up of 80 market sale homes with a mixture of houses and apartments. 53 will new council Dwellings. Following the initial needs assessment that was provided by Homes and Landlord Services the, 53 will be made up as follows

Dwelling Type	Occupation level	GIA	Number of dwellings
2 Bed house	4 person	79sqm	11
3 bed house	5 person	93sqm	10
1bed flat	2 person	50sqm	12
2 bed flat	3 person	61sqm	20

The house will be traditional 2 storey houses and the flats in blocks 3 and 4 storey high. (Site layout and floor plans attached as appendix D)

A local lettings policy for this site will be developed. A stated aim of the policy will be lettings to local people. The detail needs to be worked through but this aim is usually delivered by advertising a percentage of properties through Home Choice with preference for households living in or having a connection with an identified local area. The percentage of properties is usually between 20% - 50% depending on local housing needs compared with city wide housing needs.

The specification of the council and private homes for sale is the same in terms of construction and external features as the scheme will be tenure blind. The private homes for sale differ internally from the council's new home standard as it is proposed to provide carpets, fully fitted bathrooms and kitchens and all white goods etc., to maximise the sales values.

4. Specification Issue (ground source heating)

Under the current planning policy requirements, in order to discharge the planning condition in relation to heating and energy we will need to install a ground source heat micro network.

The cost of the installation on the ground source piling system will be eligible for Renewable Heating Incentive (RHI), which will cover the cost of the installation. The RHI will last for a period of 20 years and the anticipated payback of the installation is around 10 years, so will create an additional income to the HRA (the appraisal is currently showing this to be £600k, but this needs to be confirmed and work is underway on this proposal to establish costs and potential income returns).

The installation of ground source heat pumps together with the construction of modern efficient homes using modern materials and insulation should result in cheaper electricity bills for tenants compared to other council homes. The proposal is for the HRA to retain the RHI payments

5. Financial Issues

A detailed financial appraisal and breakdown of costs is provided

Based on an initial feasibility study undertaken at the start of the project, gross capital expenditure for this scheme was estimated to be £23m over the life of the project (2017- 2021), with the peak outlay estimated at £10m in any one financial year.

Following detailed site investigations, contractor's quotes and with the benefit of having obtained a satisfactory planning consent, costs of the scheme have been confirmed at £24.14m including a contingency of £471k (subject to the outcome of consultant's report and the work underway on ground source heat pumps). This includes:-

- The sum of £847k which has already been spent achieving a satisfactory planning consent, providing a temporary access and includes a sum to cover the cost of demolition of the children's home to be carried out in July 2018.

- A contingency of £471k (2.5%). This could be used to cover an estate service charge and/or any unforeseen costs or changes in specification of council dwellings should this be required.

- A sum of £569k to fully fix the cost of the development and remove all the risk to the Council, this sum would cover any issue that arise during the construction from issues in the ground, to utilities company issues

- A combined sum of £1.2m for the Sales, Marketing and Development Management Services that are being provided by WD for their expertise as developers to project manage the homes for sale and for the resultant receipts to cross fund the cost of building council homes

- A provisional sum of £596k for the costs of the ground source heat pumps.

Changes to the scheme mix, type of units and a reduction in the original number of dwellings from 140 to 133, through the planning process has resulted in a change in the forecast of estimated capital receipts from £21m to £19.4m (this includes a capitalised sum of £600k for the RHI) Therefore the residual investment required by the HRA currently stands at an estimated £4.74m (net cost to HRA of £1.84 m after allowance of RTB receipts) with a peak outlay of £12m any one financial year.

The construction of 53 new council homes creates an asset value of £12m and a yearly rental stream to the HRA. Whilst council homes will be subject to the RTB legislation the cost floor provision (where dwellings cannot be sold for less than it cost plus infrastructure regardless of the tenants discount) is likely to reduce the number of sales until this expires in 15 years time.

The current estimated cost of £24.1m can be funded by a combination of HRA investment and reserves along with the use of additional right to buy receipts. Budgets for Housing Services are approved at Cabinet and Full Council as part of the Council's annual budget report. The expenditure for the costs of the scheme have been included in the 30-year HRA business plan, and approved by Full Council 21 February 2017.

6. Management Company

It is proposed that a Management Company be set up to look after the entire estate. The council will retain the freehold of the site (except for those houses which are sold) and appoint a management company. The exact terms and model type have yet to be decided along with the governance arrangements. Any arrangement will provide for a termination clause in the event the Local Housing Company decides to set up a Management Company to look after other BCC development schemes.

The management company will have two roles, firstly, to manage the repairs and maintenance of the communal areas and structure of the flats for sale. Secondly to manage the open spaces, ecology corridors and car parking and the required residents parking scheme. All roads are to be fully adopted by Highways.

The houses and flats for sale will be sold with an obligation to contribute towards the costs of maintaining the estate and/or flats. This will help the saleability of both the flats and homes for sale knowing the estate will be regularly maintained and kept tidy. The management company will manage the flats and the open areas. The HRA will retain control over its houses, flats and associated car parking areas.

The council will continue to maintain its homes in the same way as other council dwellings. However it will be a requirement of the HRA to contribute towards the cost of maintaining the open spaces, ecology corridors and the management company will look after council tenant parking areas and permit scheme. The alternative would be for the HRA to take on the role of the management company for the open spaces etc. which is not recommended and would be need to be resourced from already stretched services.

The exact amount of the council's contribution towards the service charge is not yet known but based on work undertaken so far WD estimate this to be in the region of £377 per dwelling or up to an annual cost £20,000 per annum. This could be paid for from the contingency sum within the overall cost of £24.14m for say the first 10 years. Thereafter a budget will need to be identified to meet this cost.

The implications of whether we claim back the service charge from our tenants for this service and the full level and extant to which the council (HRA) will be involved will need to be agreed and it is proposed to set up a small working group in association with WD to finalise this agreement, with the final sign off of the full details of the setup of the management company to be delegated to the Executive Director (Communities) in consultation with the Service Director of Legal and Democratic Services and the relevant Cabinet Member

7. Incentivisation fee

The purpose of agreeing to an incentivisation fee is to encourage WD to maximise sales values over and above the anticipated estimates in the financial appraisal in order for the council to close the gap between costs and receipts. Without some form of incentive scheme WD may not make that extra effort in order to maximise sales values.

The detail terms of the incentivisation scheme are being negotiated by the independent consultants and final approval to delegated to the Executive Director (Communities) in consultation with the relevant Cabinet Member

8. Finance comments (Neil Sinclair)

The Alderman Moores site is an opportunity to develop a mixed tenure site of 133 units comprising 53 affordable and 80 market sale units. This is the first time that the HRA has developed a mixed tenure site and as such there will learning from this development that can be built into future developments of this type. The forecast gross cost of developing the site is £24.14m, proceeds from private sales (£18.9m) and RHI payments (£0.5m) is expected to be £19.4m resulting in a net cost of developing the site of £4.74m. Based on the value of the affordable units, £9.667m the net cost of the site of £4.74m will in partly offset by the use of 1-4-1right to buy receipts of £2.9m, leaving a net cost to be funded from the HRA Capital of £1.84m. There are clear risks associated with developing the site as the financial modelling assumes sales revenue from the 80 market sales of £18.9m. Should the housing market fail to perform at the levels assumed in the model both in terms of price of individual units sold and price obtained the net cost to the HRA will increase. This risk is in part offset by the incentivised agreement with Wilmott Dixon and requirement to closely monitor progress of the site development and pace of sales. At this stage the financial model makes no assumption for the cost of borrowing to meet cash flow requirements for the development of the site. It is expected that Bristol City Council will support the cash flow of the site to allow the site to be developed ahead of any house sales. Based on the cashflow of the development costs against sales revenue there is a peak cash flow requirement of £11.65m at month 15 (approximately February 2020) into the site development. Clearly the costs and progress of the development need to be closely monitored to ensure that risks around cost overrun and sales income are identified early and suitable mitigation put in place. It would be beneficial that regular reports are brought to HSLT and Growth and Regeneration EDM on a regular basis.

9. BP comments (Lorna Whitlock)

The base BP assumptions mean that it is fully funded for 11 year's. One of the assumptions is that the HRA will receive the full value of the receipt from the sale of the 80 private units at market value of £18.8m. Various scenarios have been performed on the BP of the impact if the value of the receipt was to be less that the £18.8m (Appendix C) This showed that the market would need to drop by 50% to have an impact on the BPs viability and it would be reduce to 10 years fully funded. This is because it utilises other resources to fund the capital programme in the short term which prevents them being available for the longer term operational needs.

The impact of not receiving any receipts from sales and retaining the 80 units as council dwellings would mean that the viability of BP would be reduced to 9 years with a shortfall to be fully funded of £1.9m for 10 years. (See Appendix C for more details) The amount of rent offsetting the receipts would be £3.7m over the 10 years

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Next steps: Cabinet 4 September

Timescale / deadline: Comments sought on Proposed Scheme as part of process to Cabinet in the September

Site Layout