

Report to	Council Housebuilding Cabinet Committee
Date	31st March 2014

Subject	Phase 2 Update
Author	Georg Herrmann – East Thames Group

1.0 Executive Summary

- 1.1 This report provides an update for phase 2 of the Council House Building Programme.
- 1.2 Phase 2 will consist of one scheme, the Burton Road scheme in Debden which, as previously reported will deliver 31 units.
- 1.3 Two further proposals have been worked up in consultation with the planning department, option 2 to deliver 42 units and option 3, 56 units.
- 1.4 Option 2 requires a subsidy of £1.638 million in order to achieve loan repayment in Year 30 and option 3 a subsidy of £1.512 m.
- 1.5 Rents are based on the Council's Affordable Rents Policy. A Rent Cap has been applied of £180 per week for all the 3 bed houses. Rents for one bed flats of £119.58 and for two bed flats of £165.58 are based on market rents of £650 and £900 per month respectively.

2.0 Scheme Description

- 2.1 The site essentially consists of a long strip of land and is situated between residential flats to the rear and an access road (including bus waiting area and bus stop/stand) directly in front. It comprises of an unused garage site (and former Council depot) on its eastern side, a path and grassed area with some small trees in the middle, a hard surfaced parking area and further garage site (partly used) on the western side. At its western and eastern ends the site adjoins the rear gardens of neighbouring houses.
- 2.2 In addition, the south west area of land also contains an area of land that is leased to Stobart Properties Limited and sub-let by them to Sainsbury's Properties Limited. This leasing arrangement is in the process of surrender and this section of land has been incorporated into the proposal. There is a pedestrian Right of Way through the site, running North to South which will be maintained. See feasibility

report in appendix 1

2.3 Two further proposals, option 2 and 3 have been developed. All houses will have individual gardens, and flats communal amenity space.

2.3.1 Burton Road, option 2 and 3

	Option 2	Option 3
1 bed flats	12	14
2 bed flats	21	20
2 bed houses	4	2
3 bed houses	5	16
Total	42	56
Car parking spaces	42	28

2.4 **Current Use**

2.4.1 There are currently 43 garages on this site, and no additional informal parking at the front as this would restrict access to the garages. 24 garages are located in the fenced-off area of the former Council Depot and cannot be used anymore. 19 garages are remaining on the site out of which 2 garages are currently void. In total, 26 out of 43 garages are not in use which results in a void rate of 60.5%.

2.5 **Costs**

2.5.1 Total scheme costs for option 2 is £7.1m comprising works costs of £6.3m and for option 3 total scheme costs of £8.9m with works costs of £7.9m. Option 2 requires a subsidy of £1.638m in order to achieve loan repayment in year 30 and option 3, a subsidy of £1.512m.

2.5.2 Pellings indicative estimate of costs assumes a build cost rate of £1,350 per m2 for flats and 1,250 per m2 for houses. This cost estimate is considered to be robust and appropriate, compared to projects of similar size and scope let within the last 12 months. Allowances have been made for demolition, asbestos removal, abnormal costs, contractor's design fees, overheads and profits.

2.5.3 A detailed cost breakdown and copies of the financial modelling are to be found in the appendix 2 + 3.

2.6 **Design**

2.6.1 The schemes will be designed following local planning guidance and the Essex vernacular architectural tradition. They will use predominately masonry materials and blend well into and enrich the existing urban environment. The design brief includes sustainability criteria, and Code for Sustainable Homes Level 3 will be reached on all schemes and code level 4 considered.

2.6.2 Feedback from planner is generally positive and emphasizes in particular the improvements to the previous 31 unit proposal put to Members. Townscape has improved, frontages to Burton Road are more robust and provide a much better definition of space, and the parking provision is appropriate in this location.

2.6.3 Once approval has been given, the detailed design will be progressed and planning applications will be prepared, in consultation with EFDC.

2.7 Procurement

2.7.1 It is proposed that the East Thames' EU-compliant contractors' framework will be utilised for procuring a contractor to carry out these works. This report requests that authority shall be delegated to the Director of Housing to approve the use of the appropriate form of build contract.

3.0 Scheme Status

3.1 What stage is the scheme at? Feasibility stage

3.2 Planning Status? Following approval, detailed design will be undertaken with the target of submitting planning applications in October 2014

3.3 Have the Build Costs been market tested? Following granting of planning permission, phase 2 will move onto the procurement stage.

4.0 Strategic Fit

4.1 The scheme complies with the EFDC Draft Development Strategy, particularly as this will provide a large number of affordable family units.

4.2 The land is owned by EFDC, and new housing for 119 or 170 residents on the Council's Housing Register will be provided.

4.3 Rents are based on the Council's Affordable Rents Policy, and it has been necessary to apply the use of the proposed Rent Cap within the draft policy of £180 per week for all the 3 bed houses.

4.4 The Council's Corporate Plan 2011-2015 sets out the aims and priorities of the Council for the four year period and addresses the challenges that the district faces. Its stated aim is "Making our district a great place to live, work, study and do business". This scheme shall contribute to this aim.

5.0 Design & Sustainability

5.1 All units will meet the Essex Housing Design Guide and will be built to Code for Sustainable Homes Level 3 and considered up to level 4. It is our intention to deliver a scheme with 30% of family housing across all tenures and 10% wheelchair units. The numbers of units with dual aspect will be maximised.

6.0 Mix of Units

6.1 The sites disaggregate as follows:-

6.2 Burton Road, option 2

	Beds	Persons	Flats/ Houses	Size sqm	Rent p/w	Service costs p/w	Nr. Units
	1	2	Flats	50	£119.58	Incl	12
	2	4	Flats	70		Incl	21
	2	4	Houses	83		Incl	4
	3	5	Houses	102	£180	Incl	5
			TOTAL AFFORDABLE UNITS				42

6.3 Burton Road, option 3

	Beds	Persons	Flats/ Houses	Size sqm	Rent p/w	Service costs p/w	Nr. Units
	1	2	Flats	50	£119.58	Incl	14
	2	4	Flats	70		Incl	24
	2	4	Houses	83		Incl	2
	3	5	Houses	102	£180	Incl	16
			TOTAL AFFORDABLE UNITS				56

7.0	Financial Information – Consolidated Package 2		
7.1	Summary:-		
	Option 2 achieves the financial target of loan repayment in Year 30 with a subsidy of £1.63 million. Total Scheme Costs are £7.1 million, of which the Total Build Cost budget is £6.3 million.		
	Option 3 achieves the financial target of loan repayment in Year 30 with a subsidy of £1.512 million. Total Scheme Costs are £8.9 million, of which the Total Build Cost budget is £7.9 million.		
	The option 2 provides a positive Net Present Value (NPV) of £2.2 million and option 3 of £3.2 million over the appraisal period of 30 years.		
		Option 2	
		Option 3	
7.2	Financial Measure	Value	Value
7.3	Loan Repayment	In Year 30	In Year 30
7.4	Internal Rate of Return	5.34 %	5.46 %
7.5	Net Present Value	£2,196,159	£3,182,344
7.6	Total Scheme Cost	£7,110,941	£8,935,238
7.7	Cost per unit	£169,308	£159,559
7.8	Acquisition	£0	£0
7.9	Works Cost	£6.3m	£7.881m
7.10	Total on costs	£810,914	£1,054,424

7.11	Total Loan Requirement	£5,472,941	£7,423,238
7.12	First year surplus	£44,934	£67,463
7.13	Subsidy	£1,638,000	£1,512,000
7.14	Subsidy per unit	£39,000	£27,000

8.0	Key Risks
8.1	<p>Revenue Risks: The rents assumed in the financial appraisal prove to be too high.</p> <p>Mitigation: EFDC approved the rent assumptions and the rents are within the Council's rent setting policy.</p>
8.2	<p>Capital Risks: Ground conditions and site surveys may identify additional un-budgeted costs. Tender returns may be higher than estimated.</p> <p>Mitigation: If site surveys identify substantive costs additional approval may be required or the scheme may be redesigned to reduce build budget.</p>
8.3	<p>Reputational Risks: Delays to programme and change of use issues in respect of car parking may result in adverse publicity.</p> <p>Mitigation: Consultation with local residents and EFDC. If Package Two is delayed we are able to substitute sites. The Council's off site parking programme will be very welcome in the communities affected and thus help our programme.</p>
8.4	<p>Quality Risks: Build quality does not meet specified standards.</p> <p>Mitigation: We will monitor robustly the build process with our qualified staff and consultants. The use of East Thames' Employer's Requirements will ensure that schemes are delivered to high standards.</p>
8.5	<p>Legal: Rights of Ways and Easements may be identified in the course of the due diligence process.</p> <p>Mitigation: East Thames and EFDC have formulated a robust due diligence process, and this process will be followed on each and every scheme.</p>
8.6	<p>Procurement: Going out to OJEU to procure Package 2 will lead to delays and additional costs.</p> <p>Mitigation: Use of the OJEU compliant East Thames Framework</p>

Recommendation	The Council Housebuilding Cabinet Committee is being asked to:
Details	<p>Approve, subject to the satisfactory completion of the due diligence process :-</p> <ul style="list-style-type: none"> • The scheme proposal presented herein (including the

	<p>financial appraisal) to develop up to 42 or 56 units;</p> <ul style="list-style-type: none">• The submission of planning application for proposal 2 or 3 for the Burton road scheme;• A total scheme budget of £7.1 or £8.9 million for option 2 or 3 for the Burton Road scheme and the• Use of the East Thames Contractors Framework to procure building contractors for this project.
--	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Appendices

1, Feasibility reports

2, Financial result option 2

3, Financial result option 3