

CONFIDENTIAL

Epping Forest District Council

Investment Report

Decision Item



Report to	Council Housebuilding Cabinet Committee
Date	10 July 2013

Subject	Development Proposals for Package (Year) One
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1.0 Executive Summary

1.1 This report marks the beginning of the Epping Forest Housebuilding Programme and proposes Package One for the first year of the Programme, consisting of three sites in Waltham Abbey; Harveyfields, the Former Red Cross site, Roundhills and a further site in Roundhills (comprising 3 garages sites). Details of the proposed conversion of Marden Close in Chigwell Row are also included in this report.

The sites comprising the proposed first package are currently occupied by garages built in the 1970s and, as all garages of this period, are very small. Parking a modern car in these garages proves difficult if not impracticable. The garages suffer a high void rate of around 38%, and the use of the majority of let garages for the required purpose of parking is considered unlikely. The redevelopment proposals herein comprise the replacement of 108 garages with 16 houses and 9 flats for affordable rent for 96 residents on the Council's Housing Register; there will also be 57 parking spaces in total.

The merit of the proposal is to convert poorly used Local Authority land and assets to residential use and thus successfully improve small pockets of land in the ownership of Epping Forest District Council (EFDC) and provide additional affordable housing to meet demand.

Package One achieves on both a consolidated and an individual basis a loan repayment in Year 30, although a subsidy of £425,000 from the Council is required to achieve this target.

Rents are based on the Council's Draft 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.

The Marden Close conversion of 20 bedsits to 10 x 1 bedroom flats in Chigwell Row remains outside Package One. Cabinet approval has already been granted in principle, subject to the decision of the Cabinet Committee. The scheme has a loan repayment of 25 years without subsidy.

2.0 Scheme Description

2.1 The Sites

The former Red Cross site and the Roundhills and Harveyfields garage sites in Waltham Abbey have been identified to form the first package of the EFDC House Building Programme. Conversion works at Marden Close in Lambourne Road, Chigwell Row have been added on request of the Council's Cabinet.

2.2 Details

The proposals for the former Red Cross site consist of two storey terraced housing, in detail 4 x 3 bed and 2 x 2 bed houses with 12 parking spaces.

The proposals for three garage sites at Roundhills are for 4 x 3 bed and 6 x 2 bed houses with 30 parking spaces.

The proposal for the Harveyfields site consists of one three storey block of flats with 3 x 1 bed and 6 x 2 bed flats with 15 parking spaces.

The Marden Close project in Chigwell Row will deliver 10 x 1 bed units at 58m² and 62m². The existing development, leased to EFDC, of which 45 years remain, is a small development in two small blocks which have been void for many months as it has become difficult to find elderly residents for small bedsits in Chigwell Row.

EFDC Cabinet gave approval on 4th February 2013 for the conversion of the 20 bedsits to 10 x 1 bed room units, subject to the approval of the Cabinet Committee. Rents will remain social rents as per Cabinet approval.

Overall, Package One will deliver 25 affordable rented units, and Marden Close will provide a further 10 units for social rent.

Feasibility reports describing these proposals in greater detail with photographs of the current sites are to be found at Appendix 2.

2.3 Current Use

Former Red Cross site, Roundhills, Waltham Abbey:-

There are currently 7 garages on this site and additional informal parking. 4 garages are void, a void rate of 57%.

Roundhills sites:-

There are currently 54 garages on this site and additional informal parking. 18 garages are void, a void rate of 33%.

Harveyfields, Waltham Abbey:-

There are 40 garages on this site and additional informal parking. 16 garages are currently void, a void rate of 40%.

Marden Close, Lambourne Road, Chigwell :-

This scheme consists of 20 small bedsits of ca 25m², which has been void for many months.

2.4 **Costs**

Total Scheme Costs for Package One is £3,948,421, in detail £1,037,757 for the former Red Cross site, £1,279,671 for Harveyfields and £1,630,993 for the Roundhills sites. Additional Total Scheme Costs of £493,864 are incurred for the Marden Close scheme.

As part of the overall Total Scheme Costs, the Total Works Costs for Package One is £3,428,500, in detail £901,000 for the Red Cross site, £1,113,000 for Harveyfields and £1,414,500 for the Roundhills sites. Additional Works Costs of £448,400 are incurred for the Marden Close conversion.

The cost advice from Pellings LLP includes allowances for demolition, asbestos removal, abnormal costs, contractor's design fees and a 5% contingency. A build cost rate of £1,250 per m², excluding the aforementioned, is considered to be robust and appropriate, compared to projects of similar size and scope let within the last 12 months.

A detailed cost breakdown and copies of the financial appraisal modelling are to be found at Sections 7-11 of this report and at Appendix 1 respectively.

2.5 **Design**

The schemes will be designed following local planning guidance and the Essex vernacular architectural tradition. They will use a mix of masonry and timber 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.

Pellings have provided feasibility reports for the three sites which demonstrate the development potential outlined above. The Feasibility reports are attached as Appendix 2.

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

2.6 **Procurement**

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 for Package 1 in 8 weeks' time.
3.3	Have the Build Costs been market tested?	Following granting of planning permission, package 1 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, although it should be noted that the Draft Development Strategy has not yet been considered by the Cabinet Committee, or adopted yet by the Council's Cabinet.

The land is owned by EFDC and the redevelopment will eliminate a current ASB problem and provide new housing for 102 residents on the Council's Housing Register.

Rents are based on the Council's Draft 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.

4.2 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. It's stated aim is "Making our district a great place to live, work, study and do business". These schemes 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. It is our intention to deliver a scheme with 30% of family housing across all tenures and 10% wheelchair units. The numbers of units to be dual aspect will be maximised.

6.0 Mix of Units

6.1 The sites disaggregate as follows:-

Former Red Cross site:-

Beds	Persons	Tenure	Size sqm	Rent p/w	Service costs p/w	Nr. Units
2	4	Affordable Rent	77	£165.58	Incl	2
3	5	Affordable Rent	93	£180	Incl	4
		TOTAL AFFORDABLE UNITS				6

Harveyfields:-

Beds	Persons	Tenure	Size sqm	Rent p/w	Service costs p/w	Nr. Units
1	2	Affordable Rent	48	£119.58	Incl	3
2	3	Affordable Rent	68	£165.58	Incl	6
		TOTAL AFFORDABLE UNITS				9

Roundhills sites:-

Beds	Persons	Tenure	Size sqm	Rent p/w	Service costs p/w	Nr. Units
2	4	Affordable Rent	77	£165.58	Incl	6
3	5	Affordable Rent	93	£180	Incl	4
		<u>TOTAL AFFORDABLE UNITS</u>				10

Marden Close, Lambourne Road, Chigwell

Beds	Persons	Tenure	Size sqm	Rent p/w	Service costs p/w	Nr. Units
1	2	Social Rent	58	£97.27	tbc	5
1	2	Social Rent	62	£97.27	tbc	5
		<u>TOTAL Social Rent UNITS</u>				10

7.0 **Financial Information – Consolidated Package 1**

7.1 Summary:-

Package 1 achieves the financial target of loan repayment in Year 30 with a subsidy of £425,000 from the Council. Total Scheme Costs are £3.9m, as part of which the Total Build Cost budget is £3.4m.

All schemes collectively provide a positive Net Present Value (NPV) of £2,757 over the appraisal period of 30 years.

7.2	Financial Measure	Value
7.3	Loan Repayment	In Year 30
7.4	Internal Rate of Return	3.51%
7.5	Net Present Value	£2,757
7.6	Total Scheme Cost	£3,948,421
7.7	Acquisition	£0
7.8	Works Cost	£3,428,500
7.9	Total on costs	£519,921
7.10	Total Loan Requirement	£3,523,421
7.11	First year surplus/(deficit)	£5,543
7.12	Subsidy	£425,000

8.0 Financial Information - Red Cross site, Waltham Abbey		
8.1	Financial Measure	Value
8.2	Loan Repayment	In Year 30
8.3	Internal Rate of Return	3.67%
8.4	Net Present Value	£21,325
8.5	Total Scheme Cost	£1,037,757
8.6	Acquisition	£0
8.7	Works Cost	£901,000
8.8	Total on costs	£136,757
8.9	Total Loan Requirement	£932,757
8.10	First year surplus/(deficit)	£8,326
8.11	Subsidy	£105,000

9.0 Financial Information – Harveyfields, Waltham Abbey		
9.1	Financial Measure	Value
9.2	Loan Repayment	In Year 30
9.3	Internal Rate of Return	3.71%
9.4	Net Present Value	£30,721
9.5	Total Scheme Cost	£1,279,671
9.6	Acquisition	£0
9.7	Works Cost	£1,113,000
9.8	Total on costs	£166,671
9.9	Total Loan Requirement	£1,099,671
9.10	First year surplus/(deficit)	£11,307
9.11	Subsidy	£180,000

10.0	Financial Information – Roundhills, Waltham Abbey	
10.1	Financial Measure	Value
10.2	Loan Repayment	In Year 30
10.3	Internal Rate of Return	3.67%
10.4	Net Present Value	£35,149
10.5	Total Scheme Cost	£1,630,993
10.6	Acquisition	£0
10.7	Works Cost	£1,414,500
10.8	Total on costs	£216,493
10.9	Total Loan Requirement	£1,490,993
10.10	First year surplus/(deficit)	£14,104
10.11	Subsidy	£140,000

11.0	Financial Information – Marden Close, Lambourne Road, Chigwell	
11.1	<p>The Marden Close scheme achieves a loan repayment in Year 25 without any subsidy. The loan repayment is therefore within the period of the existing lease.</p> <p>It achieves a positive NPV for the Council over the 30 year appraisal period of £84,772.</p>	
11.2	Financial Measure	Value
11.3	Loan Repayment	In Year 25
11.4	Internal Rate of Return	4.77%
11.5	Net Present Value	£84,772
11.6	Total Scheme Cost	£493,864
11.7	Acquisition	£0
11.8	Works Cost	£448,400
11.9	Total on costs	£45,464
11.10	Total Loan Requirement	£493,864
11.11	First year surplus/(deficit)	£10,520
11.12	Subsidy	£0

12.0	Key Risks
12.1	<p>Revenue Risks: The rents assumed in the financial appraisal prove to be too high.</p> <p>Mitigation: EFDC approve rent assumptions and the rents are within the Council's draft rent setting policy.</p>
12.2	<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 discontinued or redesigned to reduce build budget.</p> <p>Additionally a 5% contingency has been allowed for within the build cost estimate to hedge against this risk.</p>
12.3	<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 One 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>
12.4	<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>
12.5	<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>
12.6	<p>Procurement: Going out to OJEU to procure Package 1 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 proposals presented herein (including the financial appraisals) to develop up to 25 units; • The submission of planning applications for each scheme; • A total scheme budget of £3,948,421 for Package 1 and a total scheme budget of £493,864 for the Marden Close

	<p>scheme; and</p> <ul style="list-style-type: none">• Use of the East Thames Contractors Framework to procure building contractors for these projects.
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<p><u>Appendices</u></p> <p>1, Financial appraisal model</p> <p>2, Feasibility reports</p>
