

Subject:	New Homes for Neighbourhoods: Buckley Close		
Date of Meeting:	14 November 2018		
Report of:	Executive Director, Economy, Environment & Culture		
Contact Officer:	Name:	Sam Smith	Tel: 01273 291383
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Ward(s) affected:	Hangleton & Knoll		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Building new homes on council land is a council priority and essential if City Plan housing targets are to be met and the city's housing crisis tackled. The council's New Homes for Neighbourhoods (NHFN) programme addresses this undersupply by identifying suitable vacant land and infill sites to develop new homes across the city. To date 173 council homes have been completed under the New Homes for Neighbourhoods programme, 12 are on site and will be completed in May 2019, with hundreds of more homes in the pipeline.
- 1.2 This project was previously being progressed as part of the Small Sites Strategy Modular Pilot. However, due to the council's proposed partner, Futureform Modular Limited going out of business, the pilot was not able to progress.
- 1.3 This report asks for approval to progress the project into the planning and construction phases to be delivered via the council's Strategic Construction Partnership.

2. RECOMMENDATIONS:

- 2.1 That the Housing & New Homes Committee approves:
- The proposed scheme of twelve new council homes at Buckley Close, Hove under the New Homes for Neighbourhoods programme and notes that an HRA budget variation of £2.930m for this scheme will be proposed for approval by Policy, Resources & Growth Committee as part of the month 7 Budget Monitoring Report;
 - The demolition of the existing garages at Buckley Close;
 - The scheme rent levels at 37.5% of Living Wage, in line with the New Homes Rent Policy and delegates authority to the Executive Director of

Neighbourhoods, Communities & Housing after consultation with the Estate Regeneration Member Board to adjust the rent within the Rent Policy should scheme costs change;

- iv. Construction through the council's Strategic Construction partnership with Morgan Sindall;
- 2.2 That the Housing and New Homes Committee recommend to Policy, Resources & Growth Committee to:
- v. Appropriate the Buckley Close former garages site (Buckley Close, Hangleton, Hove BN3 8EU) for planning purposes and delegate authority to the Executive Director of Environment, Economy and Culture to appropriate for housing once the development is complete.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 At their meeting on September 2015 Housing & New Homes Committee approved a New Homes for Neighbourhoods Small Sites Strategy Update Report that included a proposal for a Modular Pilot to invite proposals from potential development partners for modular or system built new homes on small and challenging council housing sites. The Buckley Close garage site was agreed to be part of this pilot and the site was marketed for development by a modular provider who would give the council nomination rights to the homes that were delivered.
- 3.2 A modular developer who had recently established a factory in Shoreham, Futureform Modular Limited, were successful in the bidding process and were consequently asked to progress the project by developing designs and undertaking public consultation. Before the agreement was formalised, the council undertook due diligence checks and at this stage that concerns were raised about Futureform's financial status. Despite several approaches by officers, Futureform were unable to give the council the financial assurances it needed. A report was considered in November 2017 by the council's Estate Regeneration Member Board recommending that the council withdraw from the project and that officers purchase the designs for the development so that they could be progressed in-house. The designs were passed to the council following the payment of a small fee to the architects who had been employed by Futureform. Futureform Modular Limited was liquidated in March 2018.

The site

- 3.3 The site comprises a row of 48 council garages, of which only one is let. The council is able to terminate garage licences and offer alternative garages to current licensees of the affected garages.
- 3.4 Buckley Close is a cul-de-sac with neighbouring blocks of council flats three storeys high directly opposite the garages. The two storey houses and flats in Chichester Close behind the garages, are at a higher level. The retaining wall at the back of the garages increases significantly in height from the south to the north (see appendix 1).

Design and construction

- 3.5 The designs have been reviewed and updated for the council by Miller Bourne architects who have been procured as part of the Strategic Partnership so the homes can be delivered by construction methods other than the Futureform modular system. The design proposals are for a row of three buildings, divided into eight two bedroom, four person flats; and four one bedroom, two person flats (one of which is wheelchair accessible). A design study is included in Appendix 2.
- 3.6 All homes follow the Nationally Described Space Standard as specified in the council's Affordable Housing Brief. All ground floor flats would also achieve the Building Regulations standard for 'accessible and adaptable' housing (Part M4(2)) which replaced the Lifetime Homes Standard. The upper flats are reached by an internal staircase as it is uneconomical to provide a lift for only two flats.
- 3.7 The ground floor wheel chair accessible flat would have a level access shower, adjustable kitchen and storage for electric wheelchairs built in. Eleven off-street parking spaces are provided for the residents use including two disabled bays. There is also unrestricted street parking on the opposite side of the road in Buckley Close.
- 3.8 The team believe they have achieved a design that works well on this constrained site. It will be relatively straightforward and cost effective to build out whilst meeting the council's design standards and maintenance obligations. There are a number of features to highlight:
- The homes will have a brick exterior which is robust and hard wearing
 - External areas will be finished with paving slab and tarmac
 - Internal fixtures and fittings will meet the council's New Homes Design Specification
 - The homes will be fitted with individual Worcester Bosch boilers
 - Windows at the front of the homes are relatively large, this is due to the constrained nature of the site and the need to maximise light through the front elevation
 - The flats will be fitted with a sprinkler system for fire safety

Scheme estimated cost and value for money

- 3.9 In order to progress the projects as quickly as possible the council was keen not to make fundamental changes to the designs. However this process also included a value for money check and comparison against the council's standards and specification requirements to ensure the:
- Designs and layouts are as efficient as possible
 - Proposed materials are robust and would minimise ongoing maintenance costs
 - Flats are designed to ensure maximum efficiency of services and structural walls
 - Circulation space in communal areas are minimised
 - Windows and external fittings are robust

- External finishes are robust and cost effective

3.10 The council's Strategic Construction partner, Morgan Sindall, have looked at a range of construction methods including seeking quotes from three modular providers. Currently timber frame is the most cost effective method of construction. The modular providers costs came in significantly higher. The key reasons given for this include:

- Scale - as some modular providers require sites of 100 units or over; and
- Site constraints – means that the existing design requires significant adaptation of modular systems.

3.11 The construction costs for the scheme have been estimated by the council's Cost Consultants Potter Rapper and are provided in Table 1.

Table 1 – Scheme costs

Cost area	QS Estimate £'000
Base cost	1,434
Demolitions and alterations	49
Renewables	72
External works	340
Preliminaries, overheads and profit	303
Design/ construction contingency	254
Tender price inflation	123
Total build cost	2,575
Fees (Professional, Planning, Building Regs, specialist surveys, Project manager etc.) at 11%	283
S106 Contributions	72
Total Scheme Costs	2,930

3.12 The unit cost and comparison information is provided in Table 2. The total scheme cost per unit for Buckley Close is estimated to be below the average cost of homes delivered through the New Homes for Neighbourhood programme to date.

Table 2 – Unit cost comparison

Cost area	QS Estimate £'000
Base cost of constructing each home	120
Total scheme cost of each home	244
Home Purchase Policy purchase limit per home	250
Average total scheme cost for NHfN per home*	259

Project delivery

- 3.13 If Housing and New Homes Committee agrees to progress this proposed scheme, the construction and development will be undertaken by the design team and the existing corporate City Build strategic construction partnership. The partnership was procured under an OJEU procurement process authorised by Policy, Resources and Growth Committee in October 2016, following three previously successful construction partnerships. The partnership started in September 2017 for a contract term of five years (plus potential to extend for a further 2 years). It is currently delivering the majority of New Homes for Neighbourhoods homes as well as construction projects for various other council client departments and is managed by the council's Property & Design department.
- 3.14 Homes can be delivered by the partnership more quickly than other delivery routes as the constructor, partner surveyors and some sub-contractors are already procured. Building on their expertise and experience from housing schemes already being developed by the partnership, in-house architects have worked with Miller Bourne since the designs were received from Futureform. The early involvement of constructors and electrical, structural and mechanical and engineering partners ensures final design and construction risks are minimised and the new homes will meet Housing's required specification. Throughout the design process prices for each element are obtained and reviewed by the team and if necessary the design is amended to ensure that the budget is met.
- 3.15 The design team, including the Estate Regeneration Project Manager, meet every four weeks and will work together within the assigned budget to set the Agreed Maximum Price, after which the Quantity Surveyor will produce a review document which demonstrates the project has achieved best value. This document benchmarks the square metre rates against previous partnered and non-partnered schemes and also against national construction rates for housing. An independent partnering advisor is employed and a Core Group meets monthly to oversee the arrangements taking a strategic view of each scheme, ensuring key deadlines are met.

Financial modelling and rent policy

- 3.16 Financial modelling of the latest design has been undertaken. The rent levels will need to be decided by Members in line with the New Homes Rent Policy report which was approved by Housing & New Homes Committee in November 2017.
- 3.17 The size and mix of the houses at Buckley Close, Hove is based on the council's Affordable Housing Brief. The modelling includes an allowance for achieving equivalent of Code for Sustainable Homes Level 4 for energy and water, site abnormalities, infrastructure and external works.
- 3.18 The revised development costs modelled have been estimated by Potter Raper Quantity Surveyor and are still subject to planning approval, therefore costs and funding are indicative at this stage. Any significant variations to the proposed

capital scheme and funding will be reported back to Policy, Resources & Growth Committee in accordance with council's standard financial procedures.

- 3.19 Table 3 provides a summary of the viability modelling results for each of the rent options considered for Buckley Close. This demonstrates that a return is provided by the LHA rents and 37.5% of Living Wage rents whilst a significant subsidy would be required if 27.5% Living Wage rents and social rents were to be considered. As the estimated surplus is lower for the living wage rents, the sensitivity to increases in the construction cost, would be greater.

Table 3 – Financial Viability results

Rent Option	LHA	Mixed rents(*)	37.5% Living Wage	27.5% Living Wage	Social
1Bed weekly rent	£146.08	£103.11	£140.60	£103.11	£74.42
2 Bed weekly rent	£191.31	£191.31	£168.72	£123.73	£83.22
Net Present Value (NPV) of cash flows Subsidy / (Surplus)	(£0.346m)	(£0.103m)	(£0.059m)	£0.662m	£1.282m
Pay back period	42 years	53 Years	56 years	60 years+	60 years+

Note: Living Wage hourly rates are assumed to be in line with OBR forecast for 2020; actual rent figures would be set according to the rates or valuation prevailing close to letting of the homes concerned.

(*) 8 x Two-bedroom flats at LHA rent and Four x 1 bedroom flats at 27.5% Living wage rents

Appropriation

- 3.20 Land appropriation in this context means transferring the use of land from one purpose to another. Under S122 of the Local Government Act 1972, the council has the power to appropriate land for planning purposes. Under Section 203 of the Housing and Planning Act 2016 where land is held for planning purposes and work is done in accordance with planning permission, third party rights are overridden. The benefit of appropriating this site for planning purposes is to protect the council from the risk of the development process being stopped once it has started. The rights of third parties whose private interests may be affected by development are protected to the extent that they have a right to compensation against the local authority.
- 3.21 The appropriation for planning will take place immediately if the recommendation at 2.3 v is approved.
- 3.22 Once the site has been developed, the council will need to appropriate the site for housing and it is therefore proposed that authority is granted to the Executive Director Economy, Environment & Culture. That second appropriation will take place when the Executive Director Economy, Environment & Culture executes an "Appropriation Memo". The site will be available for housing use.

Next Steps

- 3.23 If Housing & New Homes Committee agree this project the project is anticipated to progress to the timetable below:

Table 4 – Project timetable

Task	Start	Finish
Planning process	November 18	March 2019
Enabling works	February 2019	April 2019
Planning Conditions & Mobilisation	April 2019	May 2019
Construction	May 2019	January 2020
Handover of homes	February 2020	

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 A number of options were presented in a report to the Estate Regeneration Programme Board when the council decided to end its relationship with Futureform in November 2017. These included re-opening or re-running the marketing exercise and taking the project in-house for delivery through the HRA. Given the advanced stage the project had reached, the Board agreed to the team negotiating to obtain rights to the designs and undertaking the project through the HRA.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The Estate Regeneration Team has engaged and consulted with local ward councillors, council tenants, resident associations and local residents in the vicinity of the site. Several briefings have been held with local ward councillors to keep them up to date on progress in relation to the project. The Estate Regeneration Member Board has also had regular updates on progress with this proposal.
- 5.2 Futureform, together with council officers, held a drop in session for local residents for the proposals. Some residents expressed support for new affordable housing. Other issues which were raised together with officer's responses are detailed in Table 4:

Table 4 – Consultation issues and response

Issue raised	Response
Concern about impact on parking	11 spaces have been included and existing parking retained. Only one garage is currently used.
Impact on local services e.g. schools	If the scheme is granted planning permission then the package of S106 contributions is likely to include Education contributions
Disruption caused by the build process	The contractor is looking at phasing the works to minimise disruption to existing residents and ensure access is maintained throughout the build process
Concerns were raised about	These concerns have been passed to Housing

Issue raised	Response
investment in existing council homes (repairs & maintenance)	teams

6. CONCLUSION

- 6.1 If approved, this proposal will deliver 12 homes for the council to let within affordable rent levels to applicants from the Homemove register. This fits with the council's Housing Strategy 2015 objectives to increase housing supply and prioritise support for new housing development that delivers a housing mix the city needs, with a particular emphasis on family and affordable rented housing. This scheme will also help to achieve the council's aim to deliver at least 500 new homes on council land under the New Homes for Neighbourhoods programme.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications

- 7.1 The financial viability modelling sets out to show whether a given scheme can pay for the initial investment itself by using the new rental stream only (net of service charges, management, maintenance, and major repairs and voids costs) over a 60 year period. It also assumes that 30% of the investment costs are met from retained Right to Buy (RTB) Receipts. Assessing the project viability over a 60 year period not only matches the life of the asset but also reduces the need to use existing tenant's rents to support the project.
- 7.2 The total estimated cost for this scheme is £2.930m; this includes all construction works, allowances for contingency, inflation and professional fees. In accordance with the RTB pooling policy signed in 2012, 30% of the cost of this scheme can be funded from RTB receipts leaving a net investment requirement from the HRA, which at this stage is assumed to be funded by borrowing supported by the new net rental income stream.
- 7.3 Current forecasts for the use of RTB receipts in 2019/20 include the development at Buckley Close; any delay to the scheme would have a negative impact on their use and would increase the risk of not achieving the required expenditure.
- 7.4 In accordance with the new rent policy, four rent levels have been modelled for this scheme. Affordable rents capped at LHA rates, 37.5% of Living Wage rents, 27.5% of Living Wage rents and target social rent. The proposal for the site is to develop 12 flats, therefore an average service charge has been applied to this scheme based on the 2018/19 budget report. A summary table of the viability modelling is shown at 3.18 of the main report.
- 7.5 The impact of using current LHA rates, net of service charges for the assumed rental income results in a surplus of £0.346m at today's value. The payback period, i.e. time taken for the future rental income to repay the initial investment, net of RTB receipts is 42 years. This level of rent therefore supports a viable project over a 60 year period. It would require an increase in construction costs of an estimated 23% before the scheme is no longer viable and so requiring subsidy from existing tenants' rents.

- 7.6 The impact of using the current 37.5% of Living Wage rents results in a surplus of £0.059m at today's value. The payback period for Living Wage rents is 56 years. This level of rent therefore supports a viable project over a 60 year period. It would require an increase in construction costs of an estimated 5%, before the scheme is no longer viable and so requiring subsidy from existing tenants' rents.
- 7.7 In accordance with the rent policy, modelling has been carried out to test whether any other mix of rents would be viable. The scheme is also viable with the 8 x two-bedroom flats at LHA rent and the 4 x one-bedroom flats at 27.5% of living wage rent. This option results in a surplus of £0.103m at today's value with a payback period of 53 years. However, this option would only allow for four flats at below the LHA level albeit at a lower rent and therefore the option recommended is to set all 12 property rents at 37.5% of living wage rent.
- 7.8 The scheme is not viable when modelled using 27.5% of Living Wage Rents or target social rents. The table at paragraph 3.17 shows that setting rents at these levels would result in a subsidy requirement of £0.662m or £1.282m respectively from the HRA at today's value.
- 7.9 The projected surplus from the options modelled would allow the HRA more funds to invest in their current tenant's homes or use to contribute to building much needed affordable housing. The LHA rent option represents the highest surplus to reinvest, with a lower sensitivity risk in relation to the construction costs. However setting rents at 37.5% of the Living Wage rate as per the table in paragraph 3.18 would provide a reasonable balance between the rent charged whilst still resulting in a viable scheme.
- 7.10 There is sufficient budget set aside for the development at Buckley Close in the current HRA capital investment programme. A budget of £5.000m was approved for new schemes yet to be identified at Budget Council as part of the 2018/19 HRA capital budget in February 2018. Of this £5.000m, £2.960m remains available for use for new schemes. A budget variation will be reported to Policy, Resources & Growth Committee (PR&G) in order to vire the required budget to the Buckley Close scheme.
- 7.11 Any significant variations to the costs at Buckley Close will be reported in accordance with the council's standard financial procedures and reported through PR&G.
- 7.12 Any decision around the borrowing requirement for this project will be made in consultation with the council's Treasury Management team to ensure that it is undertaken in accordance with the council's borrowing strategy, authorised borrowing limits and prudential indicators.

Finance Officer Consulted: Craig Garoghan

Date: 19/10/2018

Legal Implications

- 7.13 Under S122 of the Local Government Act 1972 a principal council may appropriate land:

- belonging to that council;
- that is no longer required for the purpose for which it is held; and
- for any other purpose for which it is authorised by statute to acquire land.

The Council is authorised to acquire land by the Town & Country Planning Act 1990 provided that the authority think that the acquisition will facilitate the carrying out of development, re-development or improvement on or in relation to the land but a local authority must not exercise the power unless they think that the development etc. is likely to promote or improve the economic, social or the environmental well-being of their area. The reasons that the re-development is in the economic and social interests of the area are set out in the body of this report. The council has powers under the Housing Act 1985 to purchase land for housing and is therefore able to appropriate for housing once the development is complete.

Lawyer Consulted:

Name Liz Woodley

Date: 23/10/18

Equalities Implications

- 7.14 An increase in housing supply will expand the provision of new, well designed homes to local households registered in need.

Sustainability Implications

- 7.15 The development is intended to be sustainable and comply fully with relevant BHCC planning policies.

Crime & Disorder Implications

- 7.16 The new homes will be designed having heed to the requirements outlined in the police Secured by Design guidance. Disused garage sites, such as the Buckley Close site, are unattractive and often used for anti-social behaviour and fly-tipping etc. If approved, the new housing development will increase surveillance and reduce the opportunity for crime and disorder.

Risk and Opportunity Management Implications

- 7.17 There are a number of risks associated with developing new homes on small, challenging sites of this kind which will be monitored by the Project Manager and Design Team.

Public Health Implications

- 7.18 Energy efficient homes which are easier and cheaper to heat will help support the health of households. The two bedroom house would be suitable for applicants with young children, those with very limited mobility or downsizers.

Corporate / Citywide Implications

- 7.19 The New Homes for Neighbourhoods programme of building new homes on council land supports the council's priorities for the economy, jobs and homes. The development of new housing has a strong economic multiplier impact on the local economy, estimated at over £3 of economic output for every £1 of public investment, creating jobs and supply chain opportunities.
- 7.20 Every new home built on small sites helps meet the city's pressing housing needs and deliver the first priority in the council's Housing Strategy 2015 of improving housing supply. New homes also help bring benefits to the council in the form of new council tax income.

8. SUPPORTING DOCUMENTATION

Appendices:

1. Site Plan
2. Design Brief

