

REPORT TO EXECUTIVE

Date of Meeting: 1 October 2024

Report of: Strategic Director of Corporate Resources

Title: Approved Projects Options Report

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Executive

1. What is the report about?

1.1 Over the past two years, Council has approved the funding for two HRA development schemes, but given the unviability of both schemes, delegated Authority to the section 151 Officer to proceed at a point when the funding of the schemes becomes viable.

1.2 The Laings scheme is a small but complex project, with 12 of the 19 properties completed and occupied. 7 properties remain to be completed. The way forward for the project was agreed at committee on 18 July 2023, but the funding recommendation was delegated to Director Finance (Section 151 Officer), Director City Development in consultation with Portfolio Holder for Council Housing and Support Services and the Leader of the Council. This is because the Council was unable to borrow prudentially at that time and there was no capital available to complete the scheme.

1.3 Council also approved the funding for Vaughan Road phases B and C with the same delegation, for the same reasons. The funding that is now available could equally be used to deliver Phase B of the Vaughan Road scheme.

1.4 As there are two approved schemes, which can be viably delivered, the report seeks Member direction as to which scheme is prioritised.

2. Recommendations:

2.1 That Executive determines which project to fund from the following two options:

- The funding of the project to complete and deliver the remaining 7 properties outstanding in relation to the Laings scheme; or
- The funding of the project to complete and deliver 16 properties at Vaughan Road Phase B.

3. Reasons for the recommendation:

3.1 The Council is committed to delivering new Council Housing for the HRA and these sites represent an opportunity for delivery following the successful completion of Edward's Court, Bovermoors Lane, Ernest Johns Mews and the commencement on site of the new apartment blocks at Hamlin Gardens and Vaughan Road.

3.2 Due to changes in the economy and in the construction sector the viability of brownfield development has become very challenging, and the Council need to ensure that best use of the capital available is made.

3.3 Both schemes in this report would benefit from the funding to ensure that the delivery of affordable housing into the Council's HRA continues, but there are only the resources available to proceed with one of them currently, so a decision is required on which one should be progressed.

4. What are the resource implications including non financial resources

4.1 The overall cost to the HRA for the delivery of the 2 construction options will be £2.5m (Laings) or £4.62m (Vaughan Road Phase B). Both options would utilise £1.4m of the available £1.7m capital receipts. The remaining requirement will be made up of borrowing and where required Homes England grant funding.

4.2 The HRA will seek to limit the borrowing on both construction options with a combination of HRA capital and Homes England grant as appropriate. The modelling currently shows a modest £60,000 per unit from Homes England, but this amount can be modified following more detailed engagement with Homes England.

4.3 The Housing Assets Development Team will manage the projects utilising the currently appointed Project Management, Contract Administration and Cost Consultancy team. No additional staff resources would be required.

5. Section 151 Officer comments:

5.1 This report has arisen out of two schemes being approved, without either scheme being viable. Whichever scheme is approved, Officers will work to bring forward the other scheme as soon as suitable funding allows the scheme to proceed.

6. What are the legal aspects?

6.1 The HRA presently only has the financial resources to fund one of the two projects set out in this report. The Executive is tasked with determining this. Given the limited funds available, Members need to consider which scheme to fund taking into account the issues set out in this report.

6.2 Members will note the total costs of the two proposed schemes set out at paragraph 4 of this report. Paragraph 8 of this report sets out the financial aspects in relation to funding of the projects in terms of the HRA's continuation to the cost, the available funding from Homes England in terms of available grants and the requirements for additional borrowing required by the HRA in order to fund each project.

6.3 Members will note, amongst other issues, the current condition of the partially completed Laings project. Members will also note the additional costs consequences in relation to the Vaughan Road project through the developers being taken off site, and the requirement for a new procurement process at some point in the future in the event that Phase B does not proceed.

7. Monitoring Officer's comments:

7.1 Members will note the choice they are presented with to fund one of two projects on the basis that the HRA only has sufficient financial resources to fund one project. The matters for Members to consider are set out in this report.

8. Report details:

8.1 Background

8.1.1 The Council holds a stock of approximately 4,800 residential properties within the Housing Revenue Account. This number reduces by about 40 per year, as stock is sold through the Right to Buy.

8.1.2 The Council has historically had a modest new build programme only completing 67 new homes in the decade to 2019. This has recently accelerated with 75 new builds completed in the last 4 years with 56 homes currently being built at Hamlin Gardens and Vaughan Road and planning for a further 62.

8.1.3 The Housing Revenue Account borrowing cap was lifted in October 2018, allowing Councils to borrow prudentially through their HRA to facilitate new development opportunities.

8.1.4 In the Spring Budget the Government announced changes relating to the retention of the Right to Buy (RTB) receipts, which means that receipts retained since 2019-20 could be used as a 50% contribution towards qualifying scheme costs, rather than the former 40%. The Council had previously match funded scheme costs by 60% since 2019-20 and the reduction to 50% now means that HRA capital resources of £1.7m have become re-available, as RTB receipts previously at risk of being repaid to central Government can now be kept instead. The intention is that £300,000 of this capital will be held back to allow the HRA to build a capital pot to fund future development.

8.1.5 This report looks at the use of this capital to fund the remainder of the Laings project, and also looks at an alternative option to fund the second phase of the Vaughan Road scheme.

8.2 Current Position – Laings Project

8.2.1 This scheme originally consisted of 18 non-traditional Laings Easi-Form properties (concrete panel construction, designed for speed of construction rather than longevity), which, for the most part, form one half of a pair of semi-detached properties. The project is two thirds completed but has suffered from delays with the previous contractor, relating to Covid shutdown of their business, eventual termination of their contract, and the need for an alternative contractor to be brought in to finish some partially completed properties. There are still 6 properties to be completed. The HRA has purchased a further privately owned Laings property, this property is the other half of one of the Council owned properties, so this purchase would aid in the rebuilding of the Council owned property and brings the number of remaining properties to 7.

8.2.2 The Laings project received a budget allocation at committee on 20 February 2018 for £3.25m, at that time this was thought to be adequate to develop all the properties. But the scheme has suffered several setbacks and changes since this original allocation;

including the addition of another property; Lockdown contractor shutdowns and slow progress; issues with the original contractor resulting in the Council bringing in a replacement contractor; significant changes in material and labour costs resulting in large cost uplifts.

8.2.3 To date 12 of the 19 properties have been completed on this project, these properties are signed off and have tenants living in them.

8.2.4 There are 7 properties that are still to be completed for this project, 2 remain undemolished, two are a self-contained pair of semi-detached houses, and the final three have been demolished and the remaining half of the semi is weather protected and propped with scaffolding.

8.2.5 All plots and properties have had the vegetation cut back and rubbish and redundant building materials cleared to improve the appearance of the area and help with any potential neighbour issues or complaints about the sites.

8.2.6 three properties are directly affected by having a demolished adjoining property – One is the void, recently purchased Council owned property, the second is a void SNG HA owned property, the third is an occupied privately owned property.

8.2.7 A budget totalling £2.5m (cost plan mid-2023) is required to deliver the final phase of the Laings project. This budget includes the purchase, demolition, and rebuilding of one privately owned property. The purchase of this property completed in July 2024.

8.2.8 There are ongoing security, scaffolding and fencing costs for this scheme at approximately £3,300 per month.

8.2.9 There are currently 2 families decanted from the remaining properties that wish to return to their original address once the project is completed.

8.2.10 The project now contains two pairs of semi-detached properties which presents some opportunities and versatility over what could be built on these plots.

8.3 Current Position – Vaughan Road Project

8.3.1 Classic Builders started construction in April 2023 and are making good progress with Phase A of the scheme which is due for completion in June 2025.

8.3.2 Additional car park works, the groundworks and foundations for phases B and C and building warranties have all been instructed (totalling circa £2.75m) following consultation with the Leader, Portfolio Holder, Housing Director, and Finance Director. These additional works were agreed as they offered programme advantages and continuity to the overall scheme.

8.3.3 Working with the Council project management team Classic Builders have produced updated costs which separate out phases B and C. The cost to build out the smaller phase B, made up of 16 one- and two-bedroom apartments is £4.4m, plus fees and contingency of £220,000 gives an overall cost of £4.62m.

8.3.4 The remaining phase C would cost £12.2m to construct (£12.81m including fees and contingency) and will deliver 40 one- and two-bedroom apartments.

8.3.5 Phase A of this project was agreed at committee in February 2023 with an allocation of £13m. Phases B & C were approved at committee in July 2023 with an allocation of £22m but the funding recommendation was delegated to Director Finance (Section 151 Officer), Director City Development in consultation with Portfolio Holder for Council Housing and Support Services and the Leader of the Council. This is because the Council was unable to borrow prudentially at that time and there was no capital available to complete the scheme.

8.3.6 Classic Builders are currently in contract for Phase A (and the groundworks as described above for B & C) only. Phase A is due for completion in June 2025, at which point, if not instructed for phases B and/or C, the Classic Builders contract will finish and they will pull off site. At this point, the Council will need to retender for phases B and C of the scheme which is likely to result in higher overall build costs and any advantages of overlapping with phase A will be lost. The elongation of the overall contract costs the Council approximately £11,500 per week – these being the costs for Classic Builders to run the site.

8.3.7 If further phases of the overall scheme are not instructed prior to Classic Builders completing the first phase the remainder of the site will need to be fenced off and mothballed.

8.4 Viability and Funding - Laings

8.4.1 Modelling has been carried out to look at the funding and repayment for the Laings project. The inputs and outputs of the modelling is as follows.

8.4.2 inputs as follows:

- 7 x 3 bed houses;
- Scheme cost £2.5m;
- HRA capital £1.4m;
- HRA Borrowing £1.1m;
- Interest rate at 4.78%

8.4.3 Outputs as follows:

- The scheme is viable;
- Annual deficit becomes a surplus in year 17;
- Loan repaid in year 48.

8.5 Laings Project Alternative

8.5.1 There is an option to look at stock and plot disposal as an alternative to the Council redeveloping the Laings properties. Early discussions have taken place with both SNG (formerly Sovereign HA) and a local building contractor.

8.5.2 The discussions with SNG have focussed on a possible joint disposal of stock in the area. SNG have some adjoining and adjacent housing stock which they are exploring options for, and a small developer may be interested in purchasing the plots and rebuilding and/or refurbishing them for market sale.

8.5.3 The local building contractor may be interested in acquiring some or all the remaining properties to develop and sell as a speculative development. There may be an opportunity to reserve some properties as affordable housing and bring back into the HRA. These discussions are at an early stage and will require all the usual due diligence, procurement, and market testing.

8.5.4 This approach could be more nuanced and could look at disposal of the more commercially attractive plots and then retaining those that could be harder to sell and redevelop those as HRA housing.

8.5.5 This approach would fit with the strategic asset management of the HRA stock and provide the HRA a modest income from the sale proceeds that could be used to fund other projects

8.6 Viability and Funding – Vaughan Road

8.6.1 Modelling has been undertaken for phase B of the Vaughan Road scheme using the same general inputs as on the Laings project above. The inputs and outputs of the modelling is as follows.

8.6.2 Inputs:

- 6 x 1 bed apartments and 10 x 2 bed apartments;
- Build cost £4.4m + 5% for fees and contingency = £4.62m;
- HRA capital £1.4m;
- Homes England grant at a modest £60k per plot = £960k;
- HRA Borrowing £2.26m
- Interest rate 4.78%

8.6.3 Outputs for the model:

- The scheme is viable;
- Annual deficit becomes a surplus in year 11;
- Loan repaid in year 42

8.7 Other Considerations

8.7.1 The options are considered in this report.

8.8 The Proposed Way Forward

8.8.1 Agreement is required for the which option is preferred.

8.8.2 The Strategic Director for Corporate Resources (s151 Officer) will continue to work with the Housing Assets Development Team to finalise the tenure for the scheme and define the most advantageous combination of funding to successfully deliver the preferred scheme.

8.8.3 Further engagement will be undertaken with Homes England to facilitate the submission of a bid for grant funding for phase B of the Vaughan Road scheme if that option is chosen.

8.8.4 If it is agreed to proceed with the use of the available capital for the Laings project, the following work will need to be undertaken before any construction will commence on site:

- Undertake the required design work for the new property and submit a Planning application.
- Appoint and/or tender for the required consultants for the project – designers, project managers, cost consultants, contract administrators, structural and civil engineers.
- Finalise the tender pack (mostly complete) and go out to tender for a main contractor to complete the project.
- Review submissions, score, and interview.
- Ensure costs are affordable and appoint contractor.
- Mobilise and start on site.

8.8.5 If it is agreed to proceed with phase B of the Vaughan Road project, the following work will be required before the scheme can commence.

- Finalise the costs and funding;
- Submit bid to Homes England for grant funding; and
- Instruct Classic to commence the works.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The proposals in this report are consistent with the corporate objective of delivering high quality, value for money homes as part of Liveable Exeter. The corporate priorities also support building great neighbourhoods and that residents have a home that is secure, healthy, and affordable. It also contributes to the council being well run with good management of our assets.

10. What risks are there and how can they be reduced?

10.1 There is the potential for cost and time overruns with construction contracts, but we seek to mitigate these by having a more detailed design at tender stage and competitively tendering. The contract administration will be closely controlled to allow for the mitigation of risks and any potential design changes. The chosen form of contract will also help to mitigate this risk.

10.2 Delaying the start on site of phase B of the Vaughan Road project would likely lead to a further increase in the build cost due to tender price inflation and the lack of continuity across the 3 phases. The risk of this will be mitigated by entering into contract and allowing for the continuity of contractor and sub-contractors across the scheme.

10.3 There is potential that Homes England might reject our grant bids for the future phase of the overall scheme, but the development team have been engaging with and meeting with Homes England for many months now and they have been fully briefed on the HRA programme and market intelligence and Homes England feedback suggests that grant levels meet the Homes England parameters based on percentage of scheme costs.

10.4 Delaying the completion of the Laings project leaves these plots looking unsightly in the estate, and further delays would likely result in an increase in the overall cost of the scheme. These risks can be mitigated by either completing the project, or by looking to dispose of the plots on the open market.

11. Equality Act 2010 (The Act)

11.1 A focus on the quality of our properties and service delivery is likely to have a beneficial impact on Council tenants, a number of whom have protected characteristics or are vulnerable in the long term.

11.2 In recommending this proposal potential impact has been identified on people with protected characteristics as determined by the Act and an Equalities Impact Assessment has been included in the background papers for Member's attention.

12. Carbon Footprint (Environmental) Implications:

12.1 The recommendations made in the report will help to deliver the Council's carbon reduction target (carbon neutral by 2030).

12.2 The HRA Development Programme is focussed on the environmental aspects of construction, building to the PassivHaus standard and Building Biology principles. Existing properties are being assessed in terms of their respective energy performance and investment decisions are formulated to deliver the required improvements.

13. Are there any other options?

13.1 The options have been discussed in the body of the report.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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