

Taunton Deane Borough Council

Tenant Service Management Board - 4th February 2013

HALCON NORTH REGENERATION- CREECHBARROW ROAD PROJECT

Report of the Health and Housing Manager

(This matter is the responsibility of Executive Councillor Adkins)

1. Executive Summary

This report outlines proposals to undertake a redevelopment of Housing land at Creechbarrow Road, Taunton. It identifies two potential sections of a combined project, one to be in the ownership of a partner Housing Association, the other to be retained by the Council. The project has the potential to secure significant investment in the Halcon Ward for new housing and significantly increase the affordable housing stock in this location.

In relation to the Housing Association portion of the site the report seeks a decision to progress transfer of part of the site and a development of 30 affordable homes.

In relation to the TDBC portion of the site the outline of a scheme is set out, subject to a satisfactory detailed scheme appraisal. A request is made to approve the redevelopment of the TDBC portion of the site broadly in accordance with the sketch plan provided, and for that purpose to undertake certain activities.

2. Background

For several years, the Council has been considering the Halcon North area in terms of what action could be taken to tackle the high levels of deprivation in the area, and to provide a greater level of support to this community. The previous regeneration project considered a preferred option of demolition of approximately 200 Council dwellings and a mixed tenure development, with significantly increased density.

The project area at this time comprised of 7.25 hectares, incorporating Valley, Beadon, and Moorland Roads along with some of Creechbarrow Road.

Members last considered this issue in the Autumn of 2012 with a report to Community Scrutiny and Executive. At that time, the Executive made the following resolutions:-

“that in view of the consensus of opinion in favour of smaller scale regeneration in Halcon North, Taunton, options be explored with partners to access funding for smaller scale development whilst maintaining and improving retained Housing Revenue Account stock. Any regeneration should be linked to the Priority Area Strategy, be constructed to the highest energy efficiency standards practicable and to include full risk and community impact assessments.”

This decision essentially ended plans for a large scale regeneration across the entire Halcon North area, in favour of exploring smaller opportunities. Concerns that surfaced at this time were that the proposed project was just too big, and that the Council was not retaining a sufficient number of Council owned stock, from the project.

In practice, this could now mean some or all of the following activities:-

- Address deteriorating planters (underway)
- Explore if additional housing management intervention can assist in further tackling nuisance and anti social behaviour issues.
- Ongoing support for Priority Areas Strategy
- Investigate if some existing properties can be extended
- Improved focus on litter/ weeds/ shopping trolleys (underway)
- Deploy new investment / projects such as Sustainable Energy Fund retrofit works to the area first.

Rather than create new governance, these actions could bolt under the Priority Areas Strategy action plan and possibly use its reporting processes to monitor.

At the outset of the previous project, a competitive process was undertaken to appoint partners to work alongside the Council on the Halcon North project, and Knightstone Housing Association (KHA) were subsequently appointed. KHA helped the Council undertake the early design of the former project, and as part of this process appointed Boon Brown Architects from their procurement framework to assist in some early design and feasibility work. As a result, both parties have built up a considerable knowledge of the area.

Throughout this process and in order to secure future funding, KHA bid for and were awarded Homes and Communities Agency (HCA) subsidy funding for 30 Affordable Rented Homes (80% of Market rent). The investment in these new homes would be in the region of £4M. Despite the larger project for the area not progressing, the allocated HCA funding remains, and therefore creates an opportunity to consider a smaller regeneration project. None of our other partner RSL's have allocated HCA funding for a scheme in this locality.

Key features of the HCA funding are:-

- It is allocated to the Halcon area. However, KHA can request for it to be transferred to any other site in Somerset if they wished, if it appeared that the HCA funding were not going to be spent within the prescribed timetable, in Halcon.

- The new housing to which it relates must be completed and the money spent by the end of March 2015. This is non negotiable.
- The timescale available to achieve construction and therefore HCA spend in this timescale is very challenging, consequently KHA require a decision from TDBC on this matter as soon as possible.
- The HCA would like to see developments to which funding relates, on site by September 2013.
- For a scheme to progress, land would need to be transferred with vacant possession to KHA for £1, being a HCA requirement.

3. Outline Proposal

Following discussion with partners, the potential for a much smaller redevelopment scheme has emerged that would secure the £4 million KHA/HCA investment in the area, rather than it being lost to the Halcon Ward and potentially the Borough as a whole. The project would also address many of the previous concerns that arose in relation to the former project in particular it is of smaller scale and a greater number of council houses would be retained.

Attention is now focussed on a scheme on Creechbarrow Road, which was one of the four streets in the original project. This area has primarily been chosen due to the existing flats on the site occupying a relatively large land footprint.

Outline of the proposal is that all current residents would be found alternative accommodation. All the current flats would be demolished. One end of the site would be transferred to KHA and they would construct 30 affordable rented houses on this area. The remainder of this site would remain in TDBC ownership, on which we would build 57 new homes for Social rent. In addition the scheme would see the creation of a central green/play area and community hub building.

Whilst the project is housing driven, it is also designed to help tackle the deprivation in the area. In total, there is the potential for 87 new homes on the site, a significant increase over the number of properties currently on the site, this represents a significant increase in better quality affordable housing and potential investment of over £11 million in this area. The play/ communal area would provide a new central focus and help integration of the new and the existing properties and provide a quality open space. The Community Hub building could house a multi agency team working in the ward and provide facilities for the community that would seek to address the serious issues of deprivation in the locality.

Appendix section 2 contains a sketch of the proposed scheme.

Whilst the increase in homes is significant, the potential increase in bed numbers is huge.

	Bedrooms	Bed Spaces
Existing Creechbarrow Road- TDBC Portion	72	144
Creechbarrow Road – Proposed TDBC Development	119	220
Existing Creechbarrow Road – KHA Portion	14	28
Creechbarrow Road – Proposed KHA Development	65	119
Proposed TDBC Development	47 Additional Bedrooms	76 Additional Bed Spaces
Proposed KHA Development	51 Additional Bedrooms	91 Additional Bed Spaces
Total of Whole Development	184	339
Total Additional	98	167

4. Housing Revenue Account (HRA) Context

During the life of the former project, the HRA has changed significantly. We have become “self financing”, giving the Council greater resources to invest in housing and community priorities. The new HRA 30 Year Business Plan has, at its heart, priorities in relation to the provision of more affordable housing, investment and support to vulnerable communities, and sustainable development.

The HRA also has available to it additional borrowing headroom of £16M. With the availability of very low interest rates and resources available in the Business Plan to fund such borrowing, the current climate and context are right to consider such a scheme.

5. Creechbarrow Road Site

The site in question is shown at Appendix 1. It forms a long strip alongside the left of Creechbarrow Road as you head in a Southerly direction. It currently comprises 42 one and two bedroom flats. Of these, 37 are Council tenants, with the remainder being leaseholders having purchased their properties under the right to buy. The site would also include 4 semi detached houses at the end of Moorland Road, 2 are currently tenanted, 1 is vacant and 1 is owned by the General Fund and is also currently vacant.

The flats were constructed in 1975/6. Whilst they vary in current condition and some are “well worn”, there are no significant issues of disrepair. Overall, the flats on the site occupy a relatively small area of the site as a whole, with much of

the site being grass. However, there are also 31 garages on the site, none of which are in significant disrepair.

The flats do currently make a modest positive contribution to the HRA Business plan. A full analysis of the current contribution these properties make to the HRA is contained in the Savills report at Appendix 3. Of the tenants in these properties there is a broad age range and family compositions consisting of:

Composition of Household	No of Households
Single Person	16
Couple	4
Couple & 1 Child	6
Adult & 1 Child	4
Adult & 2 Children	1
Age Range of Council & Private Tenants	No in Age Range
0-10 yrs	7
11-18 yrs	2
19-29 yrs	9
30-39 yrs	8
40-49 yrs	3
50-59 yrs	5
60-69 yrs	9
70-79 yrs	2
80-89 yrs	2

There are five leasehold properties in the proposed site (all in TDBC portion), with one still within the right to buy discount repayment period. The leasehold properties are occupied in the following way:

Leasehold Properties	
Owner Occupied	1
Private Tenant	3
Vacant	1

6. Detailed Proposal- KHA

The KHA outline development is comprised of 30 dwellings in total, consisting of the following.

- 9 x 1 Bed Flats
- 8 x 2 Bed Flats
- 2 x 2 Bed Houses
- 8 x 3 Bed Houses
- 3 x 4 Bed Houses

15 of the flats (9 x 1 bed & 6 x 2 bed) will form a 3/4 storey block for active, elderly persons, with 3 flats on the ground floor suitable for disabled persons. The block of flats will contain a lift and a mobility scooter store on the ground floor. There is the potential to add a few more dwellings perhaps 3 or 4 (flats over

garages) funded by some additional KHA investment, confirmation of this to follow.

The road into the site would be utilising the existing access into the site.

For regeneration projects it is usual for the Council to underwrite 50% of the “at risk” costs, i.e. the costs incurred in scheme design prior to planning consent being obtained. The risk being that these costs will be wasted should the project not receive planning consent. In this case 50% of the at risk costs for the KHA portion of the site are £32K. It is therefore recommended that the Council agrees to underwrite these costs, which would be funded by the HRA as a revenue cost if incurred.

7. Detailed Proposal- TDBC

The outline of TDBC development is comprised of 57 new properties in accordance with the mix below.

- 19 x 1 Bed Flats
- 19 x 2 Bed Flats
- 4 x 2 Bed Houses
- 9 x 3 Bed Houses
- 4 x 4 Bed Houses
- 1 X 5 Bed House
- 1 x 6 Bed House

On the area where the current flats of Creechbarrow Road are located on the part to be retained by TDBC, 46 new dwellings would be constructed made up of:

Fifteen of the flats (9 x 1 bed & 6 x 2 bed) will form a 3/4 block for active, elderly persons, which will be identical to the KHA block of flats for the elderly. There will be 3 flats on the ground floor suitable for disabled persons and the block of flats will contain a lift and a mobility scooter store on the ground floor.

Included in the proposed development is the potential for a central area of open space that could include a play area equipped for the under 5's. The equipped area will need to be at least 400m² and contain five items of play equipment. To cover all play disciplines it is suggested the play equipment provided should contain:

- Climbing Frame, this could have a slide attached to it and therefore count as two items
- Swings, both cradle and flat swings
- Roundabout
- Seat, bin and sign

In addition, at the end of Moorland Road, currently where Numbers 1 and 3, semi detached houses are situated, there would be an additional 8, 2 bedroom flats, with a community hub building on the ground floor. The community hub building will house a multi-agency team serving Halcon, and provide space for other facilities and activities to support the community. Revenue funding would need to be clarified for this part of the project, but in the meantime costing for the basic

structure of the hub building has been included in the evaluation contained in this report and the total build costs.

This part of the site is currently available to us by virtue that one property is owned by the General Fund (GF) having been “bought back” some time ago. The second property is owned by the HRA but is currently vacant. Both properties require significant work; this proposal would see them demolished to allow the creation of the new flats and hub as described. Alternatively, the existing semi detached properties could be converted in their current form to provide some form of temporary community use and/or to support the overall scheme development and construction activities if required. Consideration will need to be given that the property owned by the GF could be part of a GF contribution to the scheme, or alternatively there would need to be an appropriation between the General Fund and the HRA, for the value of the asset.

Finally, the scheme could be enhanced by additional new housing frontage on the opposite side of this end of Moorland Road. The proposal therefore includes 3 additional family homes on the site of the currently occupied (tenanted) 2 and 4 Moorland Road. Number 2 Moorland Road in particular presents a good opportunity as it has a large garden.

The “at risk” costs, i.e. the costs incurred in scheme design prior to planning consent being obtained, for the TDBC portion of the site are estimated to be £120K. It is therefore recommended that the Council agrees to underwrite these costs, which would need to be funded by the HRA as a revenue cost if incurred.

The estimated project costs for 57 new dwellings and community hub building is £7.667 million.

8. TDBC Development Appraisal & Impact on HRA Business Plan

Savills Consultancy has been engaged to provide a report and initial view on the TDBC part of the development. Their report is attached at Appendix 3. The key conclusions from this work are:

1. The current flats and houses in this scheme in Creechbarrow Road are predicted to make a modest surplus over the next 30 years, broadly comparable to the valuation attributable to them under HRA self-financing,
2. There is a net loss of income if these units are removed, however due to the small scale of the scheme, the impact on the overall HRA cash flow of removing these properties is marginal,
3. The estimated total cost of developing the 57 new homes is £7.667 million, which is too large to be met from available revenue in one year and so will need to be accommodated within the Council’s capital/borrowing limits,
4. The new homes will produce an estimated rental income of £294,000 per year increasing at RPI plus 0.5% and the main additional costs are those of servicing and repaying the development loan (estimated at £390,000 per year linked to rent increases at RPI plus 0.5%) and in later years the provision for major repairs to the properties,

5. The differences between the cash flow with the existing homes and the cash flow with the new homes are relatively marginal – additional costs without capital subsidy of the new provision are at a maximum around £400,000 to £450,000 per year in 25 to 30 years time – and so are within a range that the Council should be able to manage. These additional costs relate mainly to the costs of servicing the development loan. Alternatively the scheme requires subsidy from the Council’s business plan of £2.1m to produce a balanced cash flow, i.e. one that can be met from the net rents of the new homes,
6. We consider that it is reasonable to conclude that the benefits of having more homes (57), including large family houses and the Community Hub, available in place of the 42 smaller flats and 4 houses currently provided justifies the slight additional net costs and the loss of net income from existing units.

9. Consultation- Council & Private Tenants

The consultation discussions with the residents of Creechbarrow Road included the following key points:

- The Creechbarrow Road site will be redeveloped.
- The existing dwellings would be replaced by a mixture of flats for the elderly, general needs flats and family homes.
- TDBC and a Housing Association would be involved in the development.
- TDBC will increase slightly the number of council properties.
- Residents will be able to return the area once development has finished if they wish to.
- Assistance and support will be provided to residents throughout the process.

The responses from the residents is as follows:

Response to Proposed Creechbarrow Redevelopment			
Yes	No	Undecided	Unresponsive
22 (including 5 leaseholders)	10	2	8

During the consultation exercise residents provided a large amount of feedback on the proposed scheme. The recurring points of the feedback are listed below.

- Pleased there is no loss of stock for Housing Services in this scheme and that the larger proportion of land remains in the ownership of TDBC.
- It has been noticed there is lots of space on the land of Creechbarrow Road and why it would be selected for redevelopment
- Mixed comments on the condition of the properties with some reported as damp and draughty with others warm and comfortable.

- Some residents feel too vulnerable and elderly to cope with two potential moves if the redevelopment was to go ahead.
- Residents are experiencing anxiety and stress over where they would be relocated to.
- A few residents have lived in the properties since they were first built and have strong support/friendship networks with neighbours of over 25 years.
- Welcomed the fact that a decision would be made quickly.

Further comments from residents were that if the scheme progresses they would be keen to see adequate parking and gardens provided with the new properties. They also ask that consideration be given to the noise generated by the Asda loading bay during the design of the new development. Residents would also like to see 'strict' estate management practice on the new development to ensure the new properties and communal areas were kept in good condition.

10 Consultation – Leaseholders

All 5 leaseholders were in support of the proposed redevelopment. However, despite supporting the scheme the following issues were raised during the consultation:

- Limited advantages to the scheme for leaseholders in comparison to tenants.
- Concerns over the financial implications of the proposals
 - The market value of the properties may not cover the cost of outstanding mortgages
 - The market value may not allow the purchase of another property
- Could another TDBC property (either existing or one of the new ones) be offered in exchange of their properties in Creechbarrow Road as opposed to Housing Services purchasing their properties at market value.

There are two significant points to highlight that were raised by the majority of tenants and leaseholders during the consultation exercise.

1. It has already been a significant amount of time that the residents of Creechbarrow Road have had a redevelopment scheme pending on their homes. The residents' patience with further proposals of redevelopment is limited having already been through a long process with previous schemes.
2. The residents have expressed a desire for varying degrees of support if the scheme is to progress. Including financial assistance with the cost of moving, support with finding a new property and for the disabled and elderly full support with all aspects of moving property.

Regardless of residents support for the proposed redevelopment, they took comfort that a decision would be made quickly and that following early February there would be a clear indication of whether the redevelopment would go ahead. Residents are keen to avoid periods of uncertainty which they find distressing.

10. Consultation- Others

Ward Councillors

Outline proposals have been discussed with Ward Councillors who have raised some concerns about the project delivering on wider deprivation issues across the ward. In addition some feedback on the importance of good design in any scheme in relation to such factors as parking provision, private gardens, public and play space have been raised. We hope that some of these issues have been acknowledged and addressed through the outline proposals presented and can be the subject of ongoing dialogue and consultation.

The specific point regarding the benefits of mixed tenure being key to a sustainable community and in particular Low Cost Home Ownership was raised. Whilst the proposals to date only refer to either Affordable or Social rented provision, it is intended to consider the use of other forms of tenure in the more detailed appraisal that would follow for the TDBC part of the site, if the recommendations in this report are accepted.

Halcon Multi Agency Group

Proposals discussed at meeting in December 2012 and broad support received.

Avon & Somerset Police

Consultation has been undertaken with Police representatives who work in the area, who are very supportive of the proposals and the investment.

Specific comment has been made concerning the potential to invest in additional CCTV as part of the development.

Halcon School/ SCC

Consultation has been undertaken with the Head and Deputy Head of Halcon Primary School. The Head is keen that the proposed redevelopment does not adversely affect the schools funding by an unplanned increase in primary school pupils. If the project is to proceed the Education & Children's Services Department at SCC will need to be informed of its progress to monitor any impact on the schools funding requirements. In addition, they have raised issues around adequate site safety and school visits to discuss site safety with the pupils.

ASDA

Consultation has been undertaken with Asda who are supportive of the proposals. The only issue Asda has raised is the need for minimal disruption to traffic in the area and no use of traffic lights which would encourage its customers to shop elsewhere; this is particularly important as building is potentially could start in the build up to the Christmas period

at 2013. Other than this, Asda would try to assist with the redevelopment if possible and would be happy to provide the new residents with welcome packs containing items and vouchers for the store.

LIDLs

Following discussion with Lidl, the outline proposals have been sent to the Lidl South West Property Office.

Somerset Care – Lavender Court

Consultation has been undertaken with Lavender Court Care Home who is supportive of the proposed redevelopment and is particularly in favour of the plans to include accommodation for the elderly. Lavender Court is keen to embed itself in the local community and would welcome the opportunity to offer day care to the elderly residents of the redevelopment and have involvement in community activities in the new community hub.

Tenant Services Management Board

Previous meetings have considered early stages of the proposals and received very positive support. The full report will be considered at the TSMB meeting on 4th February and outcome will be reported verbally at subsequent committee meetings.

Halcon North Residents Association

Outline proposals have been discussed with Chair Person and verbal response has been positive/well received.

11. Procurement

There are some procurement issues to consider in relation to the proposal. Although the site would ultimately be in two parts in terms of ownership, in terms of development it would be desirable from a practical point of view to redevelop it as one. It is also worth noting that the Council's experience of managing its own new housing developments is very much in its infancy.

At the outset of the previous project, a competitive process was undertaken amongst partner housing associations, to appoint organisation(s) to work alongside the Council. All Housing Associations who were members of our previous Affordable Housing Development Partners Group were invited to express an interest in working with Taunton Deane BC to bring forward a new community at Halcon North. One of the main issues was, whether any of the partners have access to grant money that they could bring forward. Some of the partner associations were too small or had no grant programme. Sovereign, Magna and Knightstone Housing Associations expressed interest. As time evolved Sovereign withdrew their development programme from Somerset. That left Knightstone and Magna to bring a scheme forward. Unfortunately Magna withdrew but Knightstone remained positive with encouragement and indication of grant from the HCA in the new programme

KHA helped the Council undertake the early design of the former project, and as part of this process appointed Boon Brown Architects from their procurement framework to assist in some early design and feasibility work. Their early designs

resulted in a concept which was used for early consultation. As a result, both parties have built up a considerable knowledge of the area.

Throughout this process and in order to secure future funding, KHA bid for and were awarded Homes and Communities Agency (HCA) subsidy funding for 30 Affordable Rented Homes (80% of Market rent). The investment in these new homes would be in the region of £4M. Despite the larger project for the area not progressing, the allocated HCA funding remains, and therefore creates an opportunity to consider a smaller regeneration project. It is worth emphasising that none of our other partner RSL's have HCA funding allocated to this location.

The use of existing framework agreements where competitive pre-selection activities have already been undertaken, present the most efficient method to procure and give reassurance in terms of established arrangements.

There are three key requirements to consider for the scheme to progress:-

-Development Agent. The Council does not have all the necessary skills, capacity and experience in house to undertake this project ourselves, we therefore require an third party organisation to undertake development services on our behalf. We have received a quote from KHA to undertake this work for us. This would make practical sense in that they can project manage the whole site in one on behalf of both parties. The fee quoted is at a level as to require a new and open procurement exercise by our Contract Procedure rules, however this would make no practical sense as we may result in having two parties project managing two parts of the same site.

It is therefore recommended to waive Contract Procedure Rules and appoint Knightstone Housing Association as Development Agents to act on behalf of the Council in relation to this project.

-Architect. As described above Boon Brown architects have been working on various schemes in this area so have developed an understanding of the location, they have been appointed as Architects for the KHA part of the site, and have been working for TDBC to produce the latest sketches as part of this proposal. From a planning perspective there is clearly an urgency to submit a planning application for the KHA part of the site, however in order for this application to be considered it would be advisable to submit an application for the site as a whole. In practical terms one Architect for the whole scheme is sensible. In order to achieve this and appoint Boon Brown the Council would need to waive Contract Procedure Rules as the fee for this service would exceed procurement thresholds and require an open procurement process. However Boon Brown have already undertaken a competitive tendering process to be included on the KHA framework for such services, in addition the quotation provided for us is further discounted from this agreed rate, we can therefore have a high level of confidence that we are being provided value for money in this regard.

It is therefore recommended to waive Contract Procedure Rules and appoint Boon Brown Architects to continue to act on the council's behalf in relation to this scheme.

-Employers Agent. No EA has been appointed for either party in relation to the scheme, however in order to progress the scheme one will need to be appointed as soon as possible. KHA have undertaken a procurement exercise to pre select on a framework agreement 5 firms of Employers Agents. Whilst the total fee for the TDBC element of the site would exceed the relevant services aspect of Contract Procedure Rules, requiring in theory a new open procurement process on behalf of TDBC, it is proposed to waive Contract Procedure Rules and undertake a mini competition from the KHA framework and appoint a joint EA accordingly.

It is therefore recommended to waive Contract Procedure Rules and undertake a joint mini competition amongst the 5 Employers Agents firms on the KHA framework and appoint as appropriate one to act on the council's behalf in relation to this scheme.

-Contractor. The estimated costs of building contractor works are likely to exceed EU procurement thresholds. In order for the Council to undertake EU compliant procurement and make the most efficient route to the market, we are proposing to access framework agreements established by the Homes and Communities Agency. The frameworks we are recommending are EU Compliant and designed with Local Authority housing projects specifically in mind. It is proposed that TDBC and KHA will jointly procure contractors for the project from a framework agreement set up and managed by the Homes and Communities Agency.

12. TDBC Borrowing and Treasury Management Advice

The Council's Treasury Management advisors Arlingclose have been consulted on the potential additional borrowing the Council would be required to undertake in order to support this proposal. Their advice is at Appendix 4, the key conclusions of this work are as follows:

-With the expectation that interest rates will stay low for longer short-term variable rate funding, either from the Council's internal resources, short-term money market borrowing or variable rate PWLB will provide the Council with the cheapest cost of funding.

-If the short-term variable rate debt is managed correctly the Council should be able to take advantage of the current low interest rate environment and if rates rise a switch to fixed rate debt can be achieved at rates below the historic long-term average.

-The use of the PWLB variable rate will increase funding costs when compared to internal borrowing or money market loans but the fact that the loan will be available for 10 years removes the element of refinancing risk which is present in the short-term funding option, management of the interest rate risk is still required.

-The structure and average rate of the new borrowing will influence the total amount of new debt that the Council will be able to take on to support this scheme. The amount of borrowing assumed in the Savills report is based upon a

30 year loan at a rate of 5%. It is acknowledged that reducing the cost of funding will increase the amount that the Council could borrow to fund this scheme and a mix of funding sources would provide a blended rate below the 5% assumed in the analysis.

-Although rates are currently low we would not advocate taking funding in advance as the cost of carry would prove an additional cost to the HRA.

13. Next Steps

If the recommendations in this report are accepted, much activity will be required to take the scheme forward.

For the KHA area, the timetable at Appendix 5 outlines the tasks required to meet the HCA completion timetable requirement.

For the TDBC area a more detailed feasibility report will be provided for members to consider, with final approval for the scheme to progress.

For the project as a whole a detailed project plan will be established with appropriate Governance arrangements in place.

One of the key activities will be supporting existing residents through the changes and arranging decanting at the appropriate time, and that information is always available on progress.

14. Finance Comments

The total costs of the project presented in this report is £7.667m.

It is assumed that all of these costs will be recognised as capital expenditure, unless the project is aborted, in which case 'at risk' costs of approximately £152K will need to be written off to the HRA revenue budget. The current HRA reserve balance is approximately £0.2m above the recommended minimum, which provides financial coverage for this risk.

The proposed financing of the project is to be finalised within the final detailed proposals. However, in order for the project to proceed to the next stage it is recommended that Members agree in principle to finance the project. The maximum borrowing needed based on current information is £7.667m.

Members could consider a funding mix of:

- HRA Reserves (say, up to £200K)
- Capital Receipts
- Borrowing
- Revenue Resources

The impact of the proposed scheme is estimated to produce a net cost to the HRA. This could be mitigated in a number of ways, e.g. reducing average expenditure across the stock, seeking revenue stream from partners for the

Community Hub, exploring the use of affordable rents, or setting aside revenue resources in the near term to repay debt quicker than the current plan.

The treasury risk has been highlighted in this report. This risk can be managed by fixing the rate and term of borrowing, but this would potentially result in higher financing costs.

There is a funding risk as highlighted in this report. The KHA development is linked to strict timescales and there is a risk of £4m of external investment in social housing in the area being lost if the project experiences delays, or does not proceed.

In summary, for the project to proceed Members will need to:

- Approve capital expenditure of around £7.7m
- Underwrite at risk costs of £152K from revenue resources (that will be included in the £7.7m if the project proceeds)
- Agree the preferred basis of funding (in a later report) but support the principle of borrowing £7.7m

As a proportion of the costs will be incurred in the current financial year, it is recommended that £200k is added to the 2012/13 capital budget to be funded from HRA reserves.

15. Legal Comments

There are framework agreements in place that are specifically designed for local authority housing projects. Therefore the Council can be reassured that the procurement process will be EU compliant if it uses these agreements.

All relevant provisions in existing tenancy and leaseholder agreements will be given due consideration if the project progresses.

16. Links to Corporate Aims

Along with supporting the Housing Revenue Account Business Plan objectives, the proposals support the key Council priorities of Affordable Housing and Regeneration.

17. Environmental Implications

All new homes on both parts of the site would be built to at least Code for Sustainable Development - Level 4

18. Community Safety Implications

Consideration will be given to local authority responsibilities in relation to crime and disorder, in particular the application of relevant design standards for new developments. The properties will be designed and built to Secure by Design standards i.e. the Police will comment on the design to ensure safety and the specifications for the properties will include security features. In the new

development as with all our existing estates Housing Management will take a proactive and robust approach to dealing with ASB.

19. Equalities Impact

If proposals contained in this report are agreed, the detailed planning stage of the TDBC part of the development will include a full and detailed equalities impact assessment. However, in the sketch design allowance has been made for some new properties to meet the needs of disabled persons and the elderly, that will result in improved provision for these groups.

20. Risk Management

Key financial risks in relation to resident consultation and financial risks are considered in the main report and in the Savills report attached. However should the recommendations be approved, full risk management processes will be applied to the TDBC project.

Key risks associated with the proposals contained in this report are:-

- TDBC part of the scheme not progressing, leaving KHA portion to progress in isolation, the Council would lose ten flats and associated land if this scenario arose. However the community would gain an additional 20 affordable homes.
- TDBC failure to decant residents in KHA part of site leading to delayed hand over and potential loss of HCA funding.
- Significant unforeseen local opposition to the proposals creating operational difficulties.
- Costs of TDBC part of site escalating beyond initial projections leading to project re appraisal.
- Sites not receiving Planning consent leading to wasted expenditure of at risk costs.

21. Recommendations

That the following matters be recommended to Full Council:

In relation to the proposed Knightstone Housing Association portion of the site:

1. The transfer the Southern part of the Creechbarrow Road site (incorporating new house numbers 1-30 on the sketch plan) to Knightstone Housing Association for £1, in order to enable the development of 30 new affordable homes.
2. To decant the tenants currently occupying the Southern end of the site (current property numbers 2-20) and transfer these properties with vacant possession to KHA.
3. To accept to underwrite 50% of KHA “at risk costs” approximately £32K, to be funded by existing HRA revenue resources if required.

In relation to the proposed TDBC portion of the site:

4. Subject to satisfactory detailed scheme appraisal, to approve the redevelopment of the TDBC portion of the site broadly in accordance with the sketch plan provided, and for that purpose to:
 - Progression of actions necessary to achieve vacant possession of the current properties including decanting, buy back of former right to buy properties or agreement of exchange of alternate property, decommission properties and secure site.
 - Progress detailed design and site evaluation
 - Preparation of planning application
5. To approve in principle borrowing of £7.7 million to fund the scheme within the Housing Revenue Account and identify any additional funding for the community hub and play aspects of the development.
6. To agree to commit TDBC to “at risk” costs of approximately £120k, to be funded by HRA revenue resources.
7. To waive Contract Procedure Rules and:-
 - Appoint Knightstone Housing Association as Development Agents to act on behalf of the Council in relation to this project.
 - Appoint Boon Brown Architects to continue to act on the Council’s behalf in relation to this scheme.
 - Undertake a joint mini competition amongst the 5 Employers Agents firms on the KHA framework and appoint as appropriate one to act on the Council’s behalf in relation to this scheme.

In relation to the project as whole:

8. To approve a supplementary estimate from the HRA reserves of £200K, which will be added to the 2012-13 capital budget, as a proportion of the costs will be incurred in the current financial year.

Contact: Officer Name) James Barrah
 Direct Dial No) 01823 358699
 [e-mail](mailto:j.barrah@tauntondeane.gov.uk) address) j.barrah@tauntondeane.gov.uk

- Appendix 1 – Current Site Plan
- Appendix 2 – Proposed Site Plan
- Appendix 3 – Savills Report
- Appendix 4 – Arlingclose Report
- Appendix 5 - Outline Project Plan (KHA) section.

Appendix One – Creechbarrow Road Map





- All rights described in chapter IV of the copyright, designs and patents act 1988 have been generally asserted
- Where any drawing is to be read in conjunction with another, including specialists, the two drawings shall be cross-checked and any discrepancies reported to the architect before the work is put in hand
- All dimensions are in millimeters, all levels are in metres, unless shown otherwise
- Any discrepancies in dimensions or details on or between these drawings/specifications should be drawn to the attention of the boon brown and or the engineer in writing for clarification
- Drawing prepared solely for the use of client, as detailed in text box, and is not to be copied, lent or used by any third party without written permission

KEY

- 3 bed houses @ 84.7m2 APPROX
- 2 bed houses @ 74.1m2 APPROX
- 4 bed houses @ 112.6m2 APPROX
- 2 bed fogs @ 57 m2 APPROX
- 1 bed fogs @ 47m2 APPROX
- 1 bed flats @ 47 m2 APPROX
- 2 bed flats @ 57m2 APPROX
- 5 bed house @ 140 m2 APPROX
- 6 bed house @ 168m2 APPROX



Rev	Date	Description	Dm

boon brown
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Project
Proposed Development at
Crechbarrow road,
Taunton,
Somerset

Client
TAUNTON DEANE BOROUGH COUNCIL AND
KNIGHTSTONE HOUSING ASSOCIATION

Drawing Title
Proposed Site Plan

Scale	1/500 @ A1	Date	18/01/2013
Drawn	ME	CHKD	JP
DWG No.	ADDP/300	Rev.	-

Appendix 3 – Savills Report

Introduction

The Council wishes to explore a redevelopment scheme in the Creechbarrow Road area of Halcon.

According to the rent roll provided to us there are 46 dwellings on the estate, 42 of which are flats and 4 are houses. 5 of the flats have been sold (leasehold) under the Right to Buy and 1 house – 1 Moorland Road – was re-purchased by the Council (General Fund) two years ago for £135,000.

Regeneration proposals developed to date

This potential redevelopment would include the demolition of 42 flats and 4 houses and the development of 30 homes for affordable rent by Knightstone Housing Association (KHA) backed with HCA grant as a scheme of 57 homes and a Community Hub funded by the Council.

Initial thinking is that the Council's homes would be for social rent although this could be tested as part of the feasibility assessments.

Considering the base position

In order to place the potential option in context, it is necessary to consider it against a possible base position, that is what the outcome might be if the project did not proceed and the existing properties were retained for a further 30 years.

Attributable debt under HRA self-financing v actual cash flows

Under HRA s-f the Council was allocated a level of debt calculated based on the anticipated income and expenditure needs of its property portfolio. In total TDBC was allocated debt of £115.8 million, equivalent to an average of £19,453 per dwelling. We have estimated that the debt associated with the Creechbarrow Road properties within this calculation (the 37 rented flats and 3 HRA houses) would have been £756,000 or £18,900 per home. This demonstrates that these properties represent slightly below average value within the overall business plan.

A comparison of the assumptions used in the HRA debt model and those in the Council's HRA business plan show that while the HRA business plan contains rent levels and management costs which are broadly similar to the assumptions used in the HRA s-f debt calculation, total costs for revenue and capital repairs are marginally higher in the HRA s-f model than those used in the Council's business plan.

The net present value of the cash flows of these properties within the Council's business plan is estimated at £837,000. We can conclude from the above calculation that the properties considered for demolition on Creechbarrow Road would have been likely to generate a low level of surplus. This would support a slightly higher level of debt than the level of debt we have estimated was actually attracted by the properties under HRA self-financing. The properties are therefore likely to make a very modest but positive contribution to the HRA.

Redevelopment Option

Savills has undertaken an appraisal of the proposal for the Council to develop 57 new homes and a Community Hub alongside a development of 30 homes by Knightstone Housing Association. Further details of the proposed scheme have been provided and we have carried out a development appraisal of the Council element of the scheme. Details of this appraisal are included at Appendix One.

In summary, the main figures are as follows:

- The 57 homes will comprise 10 one bedroom flats for general needs and 6 one bedroom flats for the elderly, 13 two bedroom flats for general needs and 9 for the elderly, 4 two bedroom houses, 9 three bedroom houses, 4 four bedroom houses, 1 five bedroom house and 1 six bedroom house.
- Site assembly costs (home loss and disturbance and repurchase of leaseholds) of £0.730 million.
- The total floor area of the new homes in the development is 4,070 sq m plus the floor area of the hub building of 256 sq m and the total construction costs (including contractors profit, fees and estimated project management and supervision costs) are estimated at £6.663 million. (This includes estimated construction costs for the Community Hub building.)
- Estimated development finance costs of £0.274 million bringing the total development costs to £7.667 million (£134,500 average per new home). It should be noted that some £400,000 of the costs relate to the Community Hub which has not been included as a property in the average cost per home calculation. Excluding the costs of the Community Hub brings the average total development cost per new home to £127,500.

The above costs are estimates and the construction costs, for example, will be influenced by the specification. It may be possible to secure some savings in the on-costs depending on the procurement process.

We have set out at Appendix One our commentary on the costs provided. In summary base build costs appear broadly in line with BCIS estimates although the allowances for architect's fees appear low and we have added an allowance for planning costs. Some of the unit sizes are above minimum HQI standards and savings could be achieved if required through and adjustment in unit size or mix.

Indicative redevelopment cash flow projection

We have taken the outcomes of the development cost appraisal and utilised them within the framework of the Council's HRA business plan. We have adopted assumptions for the projection of income and expenditure for the new homes that we consider are reasonable (taking into account the quality and newness of the homes and that are consistent with those adopted in the Council's plan. The key assumptions are as follows:

- The overall construction costs at practical completion are assumed as £7.667 million as set out above.

- It is assumed that as the homes will be owned and managed by the Council that they will be let at social rents, a rent per home, broadly consistent with the HRA s-f assumptions (based on the formula (target) rents of the properties) for the new stock of an average of just over £101.00 per week (£5,260 per year).
- Zero net management and repair costs per dwelling, assuming that the properties can be managed and maintained within the budget previously utilised by the demolished homes.
- Major repair costs of:
 - £0 per dwelling per year in years 1 to 10
 - £600 per dwelling per year in years 11 to 15
 - £1,200 per dwelling per year in years 16 to 20
 - £1,800 per dwelling per year in years 21 to 30.

Projecting income and expenditure based on the above assumptions over 30 years and applying a 6.5% per annum discount rate (as used in the HRA s-f calculation) gives an average valuation of £65,920 per dwelling, which equates to £3.757 million for the proposed 57 homes. Using the same assumptions in a cash flow with inflation assumed at 2.5% per annum and a cautious interest rate of 5%, including margin indicates that the net income stream might be able to support (and repay) a loan of up to £5.558 million. **This leaves a gap of £2.109 million when compared with the estimated cost of provision which would represent the capital subsidy required.** It may be possible to reduce the capital subsidy required from the Council's housing resources by securing general fund capital or revenue resources or capital or revenue contributions from other partners towards the cost of the Community Hub

Alternatively, assuming interest rates at 5% then in order to support and repay a loan equivalent to the estimated average development costs of £132,650 per dwelling we estimate that the average rent would need to be £134.30 per week. This average rent figure is in the order of 33% above the assumed average formula (target) rent. **Rather than a capital subsidy or charging higher rents the Council could support the scheme cash flows with a revenue contribution of £96,200 per year (increasing with rents at RPI plus 0.5%).**

In practice the actual position with regard to the funding of the scheme will be influenced by factors beyond the scheme costs and the level of loan that could be supported by the rents. They are likely to include the availability of other (capital) resources, the attractiveness of the costs of borrowing and other demands on resources. The following table illustrates this point.

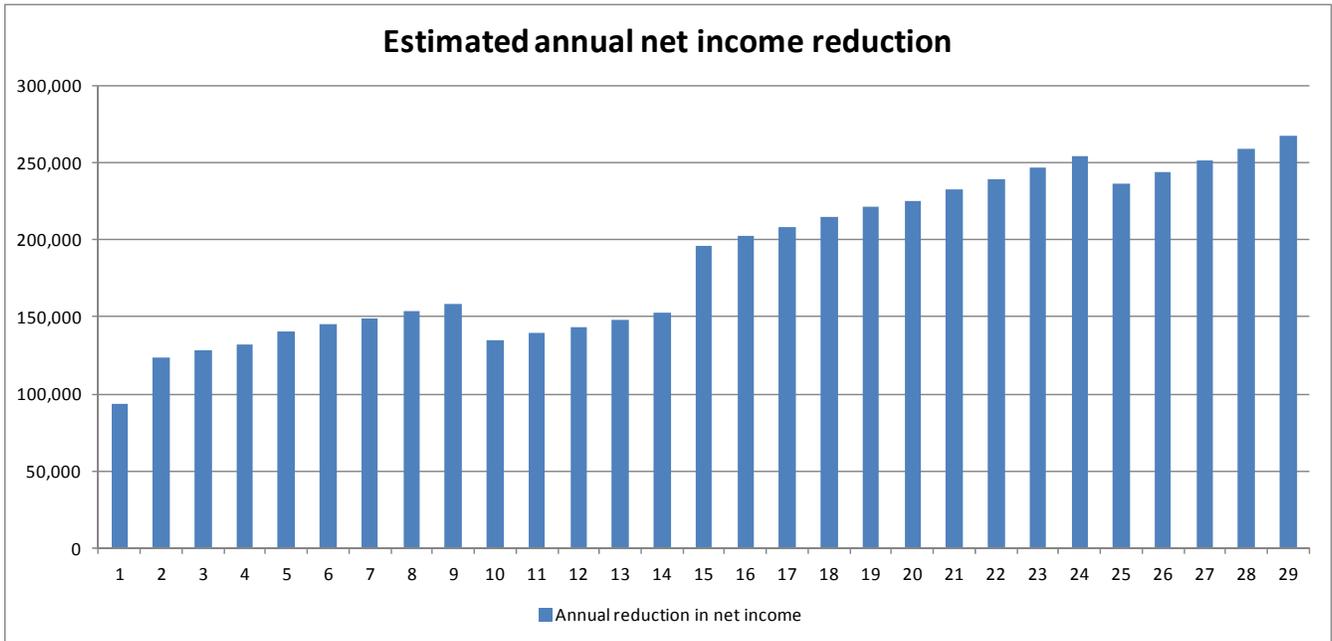
Basic scheme funding needs	Possible actual position
<p>Loan funding of £5.5 million supported by rents</p>	<p>Loan funding of £4.5 million</p>
<p>Capital subsidy of £2.0 million</p>	<p>HRA contribution of £3.0 million</p>

Comparing Income and Expenditure cash flows

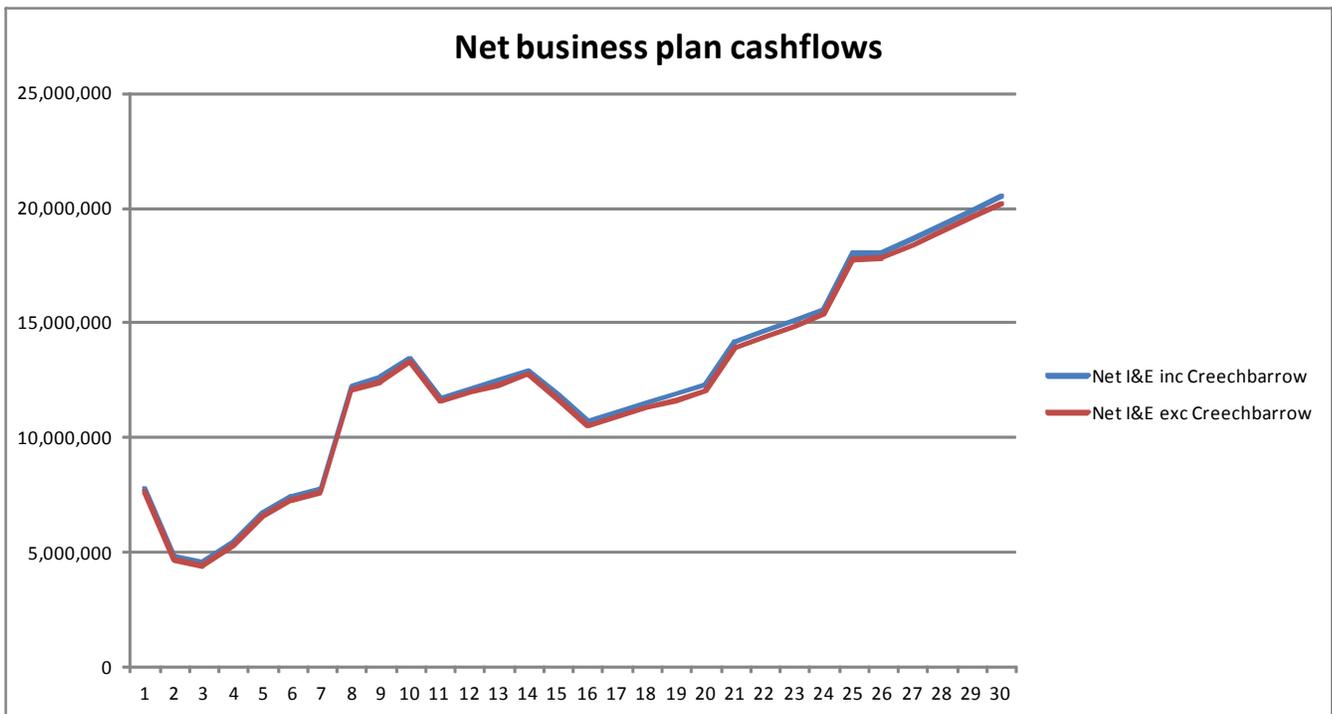
Based upon the Council's HRA business plan (Nov12 Final version) provided to us we have compared the annual surpluses / deficits before interest and funding costs over 30 years under three scenarios, as follows:

1. The base position assuming that the flats at Creechbarrow Road are retained,
2. The position assuming the flats are removed from the plan. The scenario assumes, most significantly, the loss of the net rental income and savings in major repair expenditure. It assumes no savings in management and day to day repair budgets as the number of properties removed are only a small proportion of the Council's total stock,
3. The position assuming that the existing flats are removed from the plan and the new (57) homes and Community Hub are provided by the Council. The impact of removing the existing flats is as set out in 2, above. The impacts of including the new homes are the inclusion of the net rents (from year 3), the inclusion of the major repairs provision (as set out previously) and the inclusion of the costs of provision. The inclusion of the costs of the new provision assumes the annual costs of servicing and repaying a loan at 5% over 30 years for the development costs (from year 3).

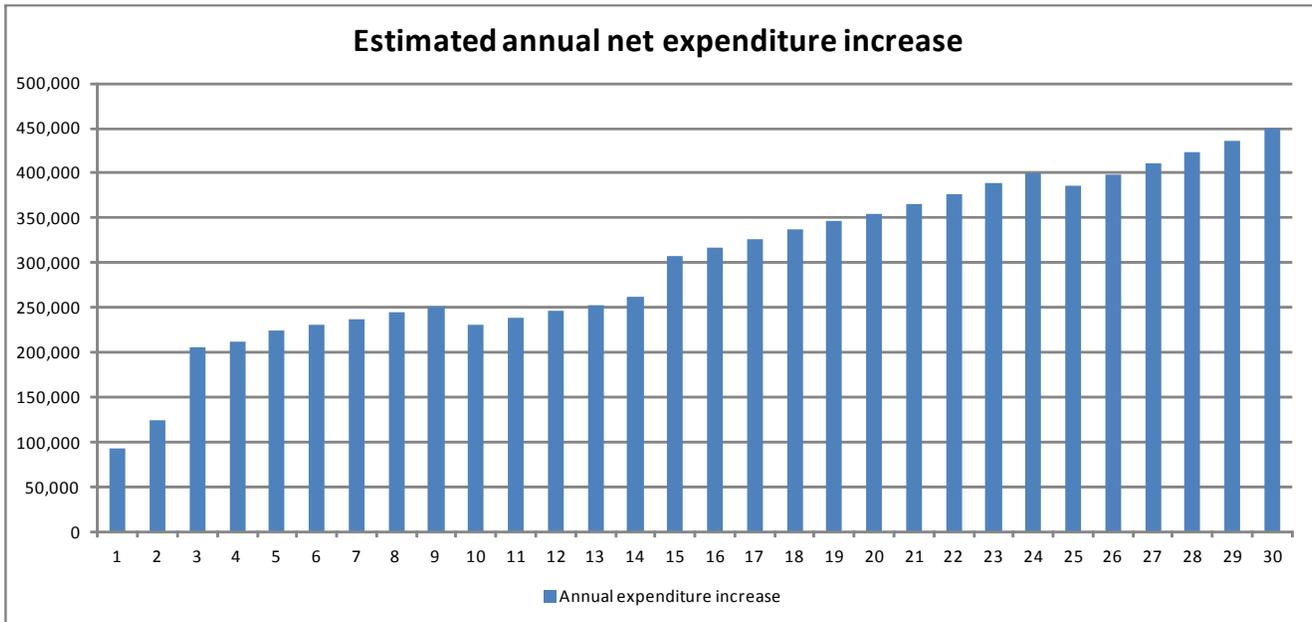
The following graph shows the reduction in net income when comparing the net income / costs of retaining the Creechbarrow Road homes with the net income / costs if they are removed from the cash flow. The net rental income of £144,000 per year (then rising at RPI plus 0.5%) is lost and this is partly offset by savings in major repairs. Note that no savings in management and day to day repair costs are assumed.



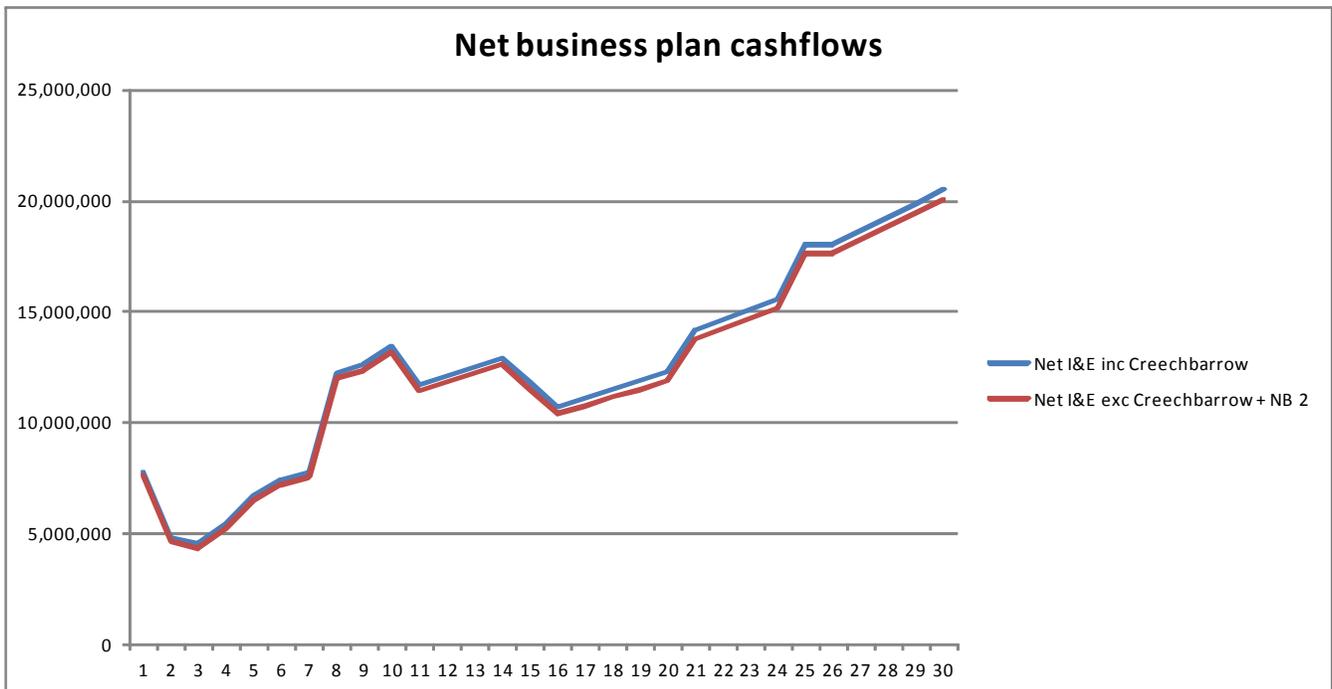
The removal (demolition) of a relatively small number of flats and houses has little impact on the Council's overall HRA annual income and expenditure cash flow surpluses as can be seen in the following graph.



If the costs of the new provision are included in the cash flow as the annual costs required to service a £7.667 million loan at 5% and to repay it over 30 years, the additional net annual cost per year compared to the base position is as shown in the following graph. The £7.667 million would need to be added to the Council's HRA borrowing but we understand that the total borrowing would remain well within the Council's HRA debt limits (subject to other borrowing proposals).



A comparison of the annual net income / expenditure between the base (retention) position and the inclusion of the new provision as an annual loan cost is shown in the following graph. The graphs above and below show that the redevelopment option modelled in this way represents only modest increases of expenditure in the early years. In later years the increases are slightly more significant as there are both loan servicing costs and major repair provisions at this time.



The graph above illustrates the combined impact of the loss of net income from the demolished units, and the additional net costs of the new scheme.

Summary and Conclusions

The key points brought out above are:

1. The current flats and houses in this scheme in Creechbarrow Road are predicted to make a modest surplus over the next 30 years, broadly comparable to the valuation attributable to them under HRA self-financing,
2. There is a net loss of income if these units are removed, however due to the small scale of the scheme, the impact on the overall HRA cash flow of removing these properties is marginal,
3. The estimated total cost of developing the 57 new homes is £7.667 million, which is too large to be met from available revenue in one year and so will need to be accommodated within the Council's capital/borrowing limits,
4. The new homes will produce an estimated rental income of £294,000 per year increasing at RPI plus 0.5% and the main additional costs are those of servicing and repaying the development loan (estimated at £390,000 per year linked to rent increases at RPI plus 0.5%) and in later years the provision for major repairs to the properties,
5. The differences between the cash flow with the existing homes and the cash flow with the new homes are relatively marginal – additional costs without capital subsidy of the new provision are at a maximum around £400,000 to £450,000 per year in 25 to 30 years time – and so are within a range that the Council should be able to manage. These additional costs relate mainly to the costs of servicing the development loan. Alternatively the scheme requires subsidy from the Council's business plan of £2.1m to produce a balanced cash flow, i.e. one that can be met from the net rents of the new homes,,
6. We consider that it is reasonable to conclude that the benefits of having more homes (57), including large family houses and the Community Hub, available in place of the 37 smaller flats and 4 houses currently provided justifies the slight additional net costs and the loss of net income from existing units.

Key project risks

We have identified key project risks and set out recommended management actions below

Value for money

In order to dispose of the site to KHA, the Council will need to demonstrate that it has achieved value for money. The Council will need to satisfy itself that the KHA appraisal for its element of the site supports the assumptions regarding the transfer of land at £1 and the affordable rent levels proposed.

The proposals include 100% rented homes (with the KHA element being affordable rent and the Council element social rent). The Council may wish to consider the demand for intermediate tenures (e.g. shared ownership) on the site. This would produce combined benefits of improving the financial viability of the scheme, and providing a mix of tenures on the site to facilitate a sustainable mix and opportunities for working households or down-sizing opportunities for older people who are under-occupying property.

Timescale

Timescales are tight to deliver the KHA element in time to secure HCA funding which requires a start on site in September 2013.

Achieving vacant possession of the site will require the decanting of tenants, and the purchase of 5 properties previously sold under the Right to Buy. The Council should start action immediately on this to purchase the properties by voluntary agreement with the owners, and consider grounds and preparatory action required for any compulsory purchase action. The cost implications would normally be included in the overall development appraisal for the scheme. The risk that the Council is unable to obtain vacant possession in time is in our view the greatest one to the programme, and needs to be resourced immediately.

It is possible that KHA will require their costs to be underwritten until vacant possession of the site is granted to them, although we have known developers to work at risk during this stage, subject to conditional exchange of contracts of the development agreement.. We understand a standard arrangement is in place for the Council to underwrite 50% of their costs in this respect.

Although the timescales only relate to the KHA element of the development, it is likely that planners will require a proposal that covers the whole development, including the Council element, at least in outline.

Due to the tight timescales, the Council may also need to underwrite an element of costs to cover the judicial review period after planning approval is granted to enable a prompt start on site.

We would recommend that the Council asks KHA for a detailed project plan setting out the actions required to achieve the timescales and that this is monitored regularly by the Council's project lead.

We have set out an indicative programme timetable below. The HCA requires start on site by September 2013 for all schemes in the 2011-15 programme. This includes the KHA element of the revised Halcon scheme. A key question to discuss with the HCA is the level of flexibility that they may be willing to agree. Their absolute deadline is March 2015, so with 15 month build programme, but cutting out contingency for delays on site, this could push back start to latest December 2013/Jan 2014. We would recommend that the Council joins KHA in discussions with the HCA on this matter.

Potential timetable

Date	Task	Comments
February 2013	<p>Agree mix brief with KHA for both elements, define site boundaries, prepare development appraisals.</p> <p>Agree heads of terms for development agreement to KHA and instruct solicitors.</p>	
February to April 2013	<p>KHA instruct and prepare surveys, investigations to support planning application and development of planning application. Council start to progress decanting and negotiations with purchasers regarding buy backs.</p> <p>Council instructs legal searches and title investigations. Define provisional red line area of site to sell to KHA</p> <p>Geotechnical Topographical and measured survey Ecology assessment Highways/access/parking traffic implications Services investigations – foul and surface water drainage, water, gas, electricity, high voltage cables etc. Demolition quote and assessment of asbestos risk (survey)</p> <p>Architects and landscape designers conclude feasibility studies and obtain KHA/Council approval. Meet with planners for pre-application assessment of scheme. Consider need for specialist planning advice if any issues contentious.</p> <p>Pre-planning public consultation</p> <p>Assessment of S106 obligations (payments, work in kind), CIL implications.</p>	<p>Overall timescale assumes Council can decant and buy back properties by August/September 2013 for their site to provide KHA with sufficient certainty to instruct detailed design and commit to contractor design and prelim costs in advance of main contract.</p>
April – May 2013	<p>Preparation and submission of detailed planning application KHA plus outline of Council, or full detailed planning application of the whole.</p>	<p>Allow minimum 3 months for consideration of planning application, 4-5 may be more realistic if scheme has any contentious elements.</p>
April – July	<p>KHA tender build contract to their contractor framework. July – select contractor, issue</p>	<p>Would need to instruct working drawings in advance of</p>

Date	Task	Comments
2013	letter of intent for detailed design work and pre-works.	planning decision in order to achieve timetable to start on site.
Sept 2013	Planning decision.	Allow 4 weeks for decision notice finalising and entering into S106 agreement. Would also need to take a view on the risk of a judicial review challenge to the planning consent. This could add 3 months onto the programme to start on site if neither Council or KHA willing to take the risk of potentially abortive costs and indemnify the building contractor.
Oct 2013	Sign build contract, demolition and main contract. 30 units c. 15 month contract.	

Appendix One: Development appraisal

Proposal

We have based our appraisal on the unit mix provided on 15th January 2013. This proposes the re-provision of 57 homes and a Community Hub to be retained by Taunton Dean Borough Council (TDBC). The scheme allows for the inclusion of accommodation for the elderly. A summary of the unit mix is provided in the proceeding table:

General Needs Housing

Unit Type	Number	Size	Total Sq m
1b2pf	10	54	540
2b3pf	11	64	704
2b4pf	2	68	136
2b4ph	4	76	304
3b5ph	9	84	756
4b7ph	4	110	440
5b8ph	1	140	140
6p9ph	1	150	150
Totals	42		3170

Elderly Housing

Unit Type	Number	Size	Total sq m
1b2pf	6	54	324
2b3pf	9	64	576
Totals	15		900

We understand that it is the intention of TDBC to enter into an agreement with Knightstone Housing Association (KHA) to deliver the units in conjunction with a further 30 affordable units to be retained by KHA. We have not been provided any financial information with regard to their proposal and are unable to provide comment on whether the offer represents a fair reflection of value.

For the sake of our appraisals we have concentrated on the units to be retained by TDBC and set out in the following sections our key assumptions.

Appraisals

The scheme appraisal software that we have used appraises the scheme in two parts. The first part seeks to generate a reasonable estimate of the costs of provision, which we have largely based on the information provided by the Council. The second part is in the form of a cash flow projection of operating income and expenditure. This second part is based on assumptions that are more typical in the housing association sector and may not be totally applicable to the Council. We have therefore taken the development costs and rental assumptions and looked at the potential impact of the scheme within the Council's HRA, using assumptions consistent with the HRA business plan. The scheme has been appraised on the basis that all of the units are to be let at social rent levels. These have been calculated in line with Housing Corporation Rent Restructuring advice and on the basis of January 1999 Market Values (subject to Vacant Possession).

General Needs Housing

Unit Type	Number	Size	Market Value – VP	Value Jan 1999	Target Rent April 2014
1b2pf	10	54	£80,000	£48,000	£78
2b3pf	11	64	£115,000	£69,000	£95
2b4pf	2	68	£115,000	£69,000	£95
2b4ph	4	76	£140,000	£84,000	£103
3b5ph	9	84	£185,000	£111,000	£124
4b7ph	4	110	£215,000	£129,000	£139
5b8ph	1	140	£245,000	£147,000	£155
6p9ph	1	150	£285,000	£171,000	£173
Totals	42	0	£5,910,000	£3,546,000	

Elderly Housing

Unit Type	Number	Size	Market Value - VP	EUV Jan 1999	Target Rent
1b2pf	6	54	£80,000	£48,000	£78
2b3pf	9	64	£115,000	£69,000	£95
Totals	15		£1,515,000	£909,000	

Rental assumptions

It is noted that the 2014 target rents produced from the assumed January 1999 values are closely comparable to those being proposed by KHA on its development, though we are unclear if the KHA rents are for 2014 or 2012. Reductions in the valuations assumed and so in

the rents charged will have implications for the net income projections and subsidy requirements of the new development.

Development Assumptions

We have assumed the site has a planning permission for the proposed use and have made a further allowance of 6 months to achieve vacant possession. We have modelled the development of the units over a 12 month period in line with TDBC's previous assumption.

Key development Inputs:

Total Scheme Cost	Cost
Total sq m (Net Internal Area)	4,070 plus 256
Base Build Cost at £1,400	£6,056,400
Architects Fees	£40,000
Planning	£25,000
Demolition	£39,600
Statutory Disturbance (£7500 per unit)	£330,000
RTB buy back (£80,000 per unit)	£400,000
On Costs (Project management & A&D including EA fees)	£502,458
Interest Cost @ 6%	£273,891

Comments

We have been provided with a build cost rate of £1,400 per sq m for the flats and houses, which has been applied to the Net Internal Area. We have outlined in the table below a potential cost breakdown to benchmark this assumption against recent experience.

Cost item	
Total sq m (estimated Gross Internal Area)	4457
Build Cost (including £40,000 allowance for fees and £25,000 for planning)	£5,763,000
Adjusted Build cost psm	£1,293
Fees, Contingency, contractor's margin at 25%	£259
Base Build Cost psm	£1,034

We would comment that no allowance has been made for planning costs within the costs provided and we have now added a provision of £25,000. The Architect's fee of £40,000 for a project of this size appears low and we would normally expect this to be around 2% to 2.5% of the build cost. This would equate to a cost of around £140,000.

The calculation in the table above deducts associated fees, contingency and contractors margin to derive a base build cost. This deduction makes allowance for:

- Professional Fees at 8%
- Contingency at 5%; and
- Contractors Margin at 12%

The base build cost of £1,034 per sq m to be charged against the Gross Internal Area is broadly inline with BCIS data.

Appendix 4

Taunton Deane Borough Council HRA Borrowing Update – January 2013

Background

Based upon the analysis conducted by Savills the Council are currently considering borrowing an additional £7.6million towards the Halcon project based upon an assumed interest rate of 5%. The additional borrowing is not linked to the original HRA subsidy debt which was programmed to be repaid as soon as practically possible i.e. this borrowing can be of a longer maturity than the current HRA debt.

This paper has been produced using interests rates and outlooks available at the 22nd January 2013.

At the 31st March 2013 the HRA Capital Financing Requirement (HCFR) is expected to be £99.6million and will fall to £97.6million by 31st March 2014. The Councils Debt Cap has been set at £116.3million so there is sufficient headroom within the HRA to accommodate this additional borrowing.

Borrowing Options

There are several options available to the Council in terms of funding this £7.6million borrowing requirement;

- The councils own internal resources
- Short-term money market loans
- Variable Rate PWLB
- Fixed-term PWLB

The Councils own internal resources

A review of the latest version of the HRA business plan indicates that over the first seven financial years the HRA will hold an average balance of £3.4million. With rates on investment balances at historic lows and interest rate forecasts indicating that Bank Rate could stay at 0.5% for another six years using the councils own internal resources to fund part of this borrowing requirement would appear to be an option worth considering. If cash resources are required then the Council could either access the money markets or PWLB for funding. This approach introduces an element of liquidity and interest rate risk into the HRA which will need to be closely managed.

Short-term money market loans

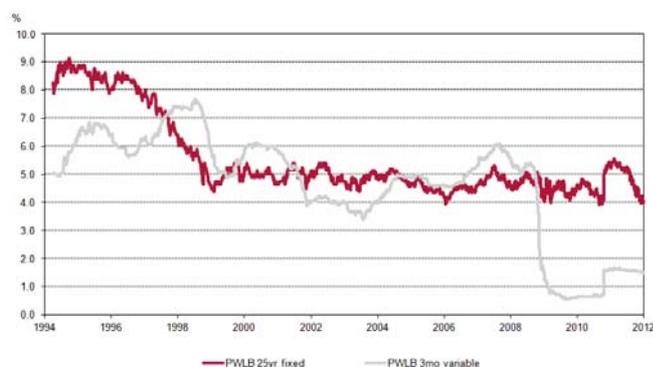
The Council is able to access short-term loans from the money markets and in particular other local authorities. At the date of preparing this paper local authorities are able to borrowing for six months at a rate of around 0.30%, the amount of money that the Council is looking to borrow could easily be found from the inter local authority market. The terms of the borrowing would be short-term in nature, however we are aware of inter local authority deals being negotiated for periods of up to five years in duration. As in the case of using the Councils own resources an element of interest rate risk is introduced into the portfolio and refinancing risk is also a consideration as inter local authority will only be available if other local authorities have cash balances to invest.

Variable Rate PWLB

The Council already has a 10 year variable rate loan from the PWLB in its HRA debt portfolio. A 10 year PWLB variable rate loan with six monthly interest re-sets can be accessed at rate of 1.26% today via the certainty rate borrowing mechanism (which the Council is able to access). As above interest rate risk is introduced into the equation however as the Council is able to switch from variable to fixed rate and the loan is available for 10 years then liquidity and refinancing risk are not as apparent. Interest rate risk will only be an issue for periods of six months as on re-set dates the loan can be fixed or repaid at no cost, if the Council wished to reduce the period of potential uncertainty then one month or three month re-sets could be taken.

The following graph illustrates how low variable rate funding rate compare to longer-term fixed rate debt and how historically longer-term funding has “traded” in a range of between 4%-5% since 1998. The Council essentially has a “margin” of 3% before short-term funding exceeds the current cost of longer-term rates.

Chart 1: Historic long-term vs. variable rate PWLB rates



Fixed-term PWLB

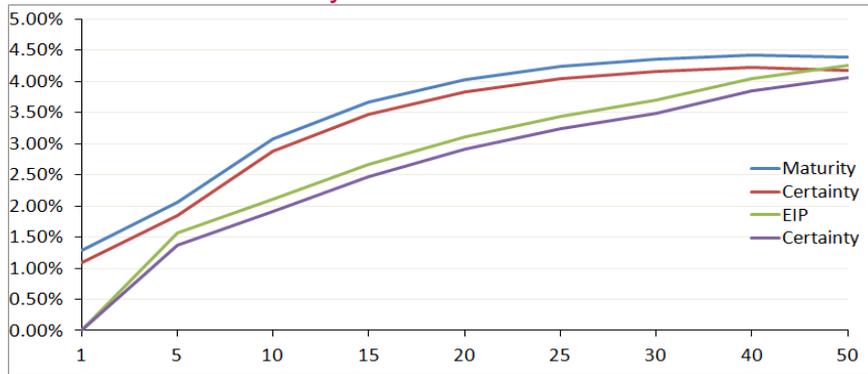
The Council is able to access fixed rate funding from the PWLB for periods of between 1 year and 50 years in Maturity, Annuity or EIP structures. At present short-term funding is cheap whilst longer term funding is relatively expensive but is close to the historic long-term average rate.

Table 1: Current PWLB Rates – 22nd January 2013

	Maturity	Certainty	EIP	Certainty
1	1.29%	1.09%	0.00%	0.00%
5	2.05%	1.85%	1.57%	1.37%
10	3.07%	2.87%	2.11%	1.91%
15	3.67%	3.47%	2.66%	2.46%
20	4.03%	3.83%	3.11%	2.91%
25	4.24%	4.04%	3.44%	3.24%
30	4.36%	4.16%	3.69%	3.49%
40	4.42%	4.22%	4.04%	3.84%
50	4.38%	4.18%	4.25%	4.05%

The table above shows the rates for maturity and EIP loans and also the impact of the Certainty Rate which provides local authorities that qualify with a 20 basis reduction in the cost of borrowing. The following graph highlights the differential between Maturity and EIP loans.

Chart 2: PWLB Maturity v EIP Rates



There is a significant spread between Maturity and EIP loans the largest spread being between 10 and 25 years. With EIP loans the council would be required to repay an element of the principal each year, for instance if a £7.6million 20 year EIP loan were taken £380,000 would need to be repaid each year where in a maturity structure the £7.6million would be repaid at the end of year 20. The following table illustrates the cash flow characteristics of the different loan structures;

Table 2: Cash flow characteristics of Maturity and EIP

PWLB Loan Repayment Profiles						
Principal Years	£ 7,600,000 20					
PWLB Notice Number	030/13					
Date	22-Jan-13					
Rate	3.11%					
	EIP (EQUAL INSTALMENTS OF PRINCIPAL) <td colspan="3">MATURITY </td>			MATURITY		
Year	Interest Paid	Principal Repaid	EIP Principal Outstanding	Interest Paid	Principal Repaid	Maturity Principal Outstanding
	£	£	£	£	£	£
0			7,600,000			7,600,000
0.5	118,180	190,000	7,410,000	153,140	-	7,600,000
1	115,226	190,000	7,220,000	153,140	-	7,600,000
1.5	112,271	190,000	7,030,000	153,140	-	7,600,000
2	109,317	190,000	6,840,000	153,140	-	7,600,000
2.5	106,362	190,000	6,650,000	153,140	-	7,600,000
3	103,408	190,000	6,460,000	153,140	-	7,600,000
3.5	100,453	190,000	6,270,000	153,140	-	7,600,000
4	97,499	190,000	6,080,000	153,140	-	7,600,000
4.5	94,544	190,000	5,890,000	153,140	-	7,600,000
5	91,590	190,000	5,700,000	153,140	-	7,600,000
5.5	88,635	190,000	5,510,000	153,140	-	7,600,000
6	85,681	190,000	5,320,000	153,140	-	7,600,000
6.5	82,726	190,000	5,130,000	153,140	-	7,600,000
7	79,772	190,000	4,940,000	153,140	-	7,600,000
7.5	76,817	190,000	4,750,000	153,140	-	7,600,000
8	73,863	190,000	4,560,000	153,140	-	7,600,000
8.5	70,908	190,000	4,370,000	153,140	-	7,600,000
9	67,954	190,000	4,180,000	153,140	-	7,600,000
9.5	64,999	190,000	3,990,000	153,140	-	7,600,000
10	62,045	190,000	3,800,000	153,140	-	7,600,000
10.5	59,090	190,000	3,610,000	153,140	-	7,600,000
11	56,136	190,000	3,420,000	153,140	-	7,600,000
11.5	53,181	190,000	3,230,000	153,140	-	7,600,000
12	50,227	190,000	3,040,000	153,140	-	7,600,000
12.5	47,272	190,000	2,850,000	153,140	-	7,600,000
13	44,318	190,000	2,660,000	153,140	-	7,600,000
13.5	41,363	190,000	2,470,000	153,140	-	7,600,000
14	38,409	190,000	2,280,000	153,140	-	7,600,000
14.5	35,454	190,000	2,090,000	153,140	-	7,600,000
15	32,500	190,000	1,900,000	153,140	-	7,600,000
15.5	29,545	190,000	1,710,000	153,140	-	7,600,000
16	26,591	190,000	1,520,000	153,140	-	7,600,000
16.5	23,636	190,000	1,330,000	153,140	-	7,600,000
17	20,682	190,000	1,140,000	153,140	-	7,600,000
17.5	17,727	190,000	950,000	153,140	-	7,600,000
18	14,773	190,000	760,000	153,140	-	7,600,000
18.5	11,818	190,000	570,000	153,140	-	7,600,000
19	8,864	190,000	380,000	153,140	-	7,600,000
19.5	5,909	190,000	190,000	153,140	-	7,600,000
20	2,955	190,000	-	153,140	7,600,000	-
	2,422,690	7,600,000		6,125,600	7,600,000	
	Total Paid	10,022,690		Total Paid	13,725,600	

If the HRA business plan is able to make the annual principal repayments then EIP funding proves the most cost effective method in the current interest rate environment.

Interest Rate Outlook

As mentioned above it is expected that interest rates will stay low for longer, the Arlingclose forecast is shown below which concurs with that view point.

Table 3: Arlingclose Interest Rate Forecast – January 2013

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Upside risk													
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Conclusions

With the expectation that interest rates will stay low for longer short-term variable rate funding, either from the Councils internal resources, short-term money market borrowing or variable rate PWLB will provide the Council with the cheapest cost of funding.

If the short-term variable rate debt is managed correctly the Council should be able to take advantage of the current low interest rate environment and if rates rise a switch to fixed rate debt can be achieved at rates below the historic long-term average.

The use of the PWLB variable rate will increase funding costs when compared to internal borrowing or money market loans but the fact that the loan will be available for 10 years removes the element of refinancing risk which is present in the short-term funding option, management of the interest rate risk is still required.

The structure and average rate of the new borrowing will influence the total amount of new debt that the Council will be able to take on to support this scheme. As mentioned earlier the amount of borrowing assumed in the Savills report is based upon a 30 year loan at a rate of 5%. It is acknowledged that reducing the cost of funding will increase the amount that the Council could borrow to fund this scheme and a mix of funding sources would provide a blended rate below the 5% assumed in the analysis.

Although rates are currently low we would not advocate taken funding in advance as the cost of carry would prove an additional cost to the HRA.

1st PHASE HALCON - 30 UNITS OF AFFORDABLE RENT

months	10/12	11/12	12/12	1/13	2/13	3/13	4/13	5/13	6/13	7/13	8/13	9/13	10/13	11/13	12/13	1/14	2/14	3/14	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15
Agreement to go ahead with sale of land to KHA					█																									
Land purchase sub to vacant possession						EX						COMP																		
Scheme feasibility drawings	█	█	█	█	█																									
Planning drawings - at risk					█	█	█	█																						
Planning process									█	█	█	█																		
Decanting of tenants					█	█	█																							
Tender for building contract									█	█																				
building contractor appointed											█																			
Building contract signed											█																			
Working Drawings										█	█																			
Site Investigation & report									█	█																				
Disconnection Services											█																			
Works on site inc demolition													█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█

DEADLINE