

	<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">BRIEFINGS TO CABINET</p> <p align="center">Monday, 22 April 2013</p>
<p>TITLE OF REPORT: Housing Development Programme – New Build Innovative Housing</p>	
<p>Report of the Cabinet Member for Housing, Councillor Andrew Johnson</p>	
<p>All Exempt (for Briefings to Cabinet)</p>	
<p>Classification - For Decision</p> <p>Key Decision: Yes</p>	
<p>Wards Affected: Avonmore & Brook Green, Askew, and Town</p>	
<p>Accountable Executive Director: Melbourne Barrett, Executive Director of Housing & Regeneration</p>	
<p>Report Author: Matin Miah, Head of Regeneration & Development</p>	<p>Contact Details: Tel: 020 753 3480 E-mail: matin.miah@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. Further to Cabinet approval in December 2012 to establish the Framework for Innovative Housing Built Using Modern Methods of Construction & Associated Development Management Services, this report seeks approval to invest £3.4m (to be funded from the decent neighbourhoods fund) in the Pilot Site on the Spring Vale Estate which will allow ten new properties to be built (60% Discount Market Sale), utilising the Rational House product, by Autumn 2014 and return a development surplus of £0.7m (20% on cost¹) for housing and regeneration purposes (with additional retained equity of £1.4m). Approval is also sought for £0.2m to develop detailed development proposals for two additional sites at Becklow Gardens and Barclay Close.

2. RECOMMENDATIONS

- 2.1. To note the work completed to date on the Pilot Site at Spring Vale Estate to develop a detailed development proposal; and that approval is given for further expenditure of £3,394,000² (to be funded from the decent neighbourhoods fund) comprising:
- Construction costs (£2,504,000)
 - Scape framework fee & pre-construction fees (£70,000)
 - City House Projects Limited's professional fees (£240,000³)

¹ Assumes nil land value

² Excludes previously approved £50,000

³ Excludes previously approved £50,000

- Sales and marketing fees (£82,000)
 - Statutory fees and project contingency (£498,000).
- 2.2. That approval is given to appoint Willmott Dixon Capital Works Limited, through the SCAPE Framework, as building contractor for the Spring Vale scheme.
 - 2.3 That authority be delegated to the Cabinet Member for Housing in conjunction with the Executive Director of Housing and Regeneration to appoint a sales and marketing agent following completion of the procurement process.
 - 2.4 To note the initial appraisals undertaken to date to identify two additional development sites at Becklow Gardens and Barclay Close; and that approval be given for expenditure of £230,000⁴ (to be funded from the decent neighbourhoods fund or should the schemes prove to be abortive - due to unforeseen costs; issues specific to site which makes development risk too high; or the development does not get planning consent the cost would fall to revenue funded from s106) for professional fees for City House Projects Limited (appointed under the Council's Framework for Innovative Housing Built Using Modern Methods of Construction and Associated Development Management Services) to undertake resident consultation, site investigation surveys, and design of the two sites to planning (RIBA Stage D). Cabinet are asked to note that this work will be let in phases ensuring that funds are not expended if a feasibility issue emerges.
 - 2.5 Note that a further Cabinet report will be presented setting out detailed development proposals – including construction methodology options - for the Becklow Gardens and Barclay Close sites and approval for further funding to proceed with the schemes, following consideration of the Housing Development Programme Business Plan.

3. REASONS FOR DECISION

- 3.1 To seek Cabinet approval for full development costs for the Council to deliver the new build scheme at Spring Vale Estate and professional fees to develop detailed development proposals for two further schemes at Becklow Gardens and Barclay Close.

4. BACKGROUND

- 4.1 The Council has an ambition to create a ladder of housing opportunity through increasing levels of home ownership for local people, especially low cost home ownership. The broader objective is to treat affordable housing as a valued, integrated, and more accessible part of the housing market, playing a greater role in regenerating local communities and local economies. It seeks to create more genuinely mixed-use communities in standards of accommodation fit for the 21st Century.
- 4.2 The Council is currently pursuing the following three main strands of direct housing development to achieve its housing aims and objectives set out in the Housing Strategy *Building a Housing Ladder of Opportunity*:

⁴ Includes building regulation and planning fees of £25,000

- a. Hidden Homes – a programme for small conversions, generally less than 5 units per site
- b. New Build Innovative Housing - built using Modern Methods of Construction (MMC), generally between 5 – 50 units per site
- c. Housing & Regeneration Joint Venture – partnership with a private sector partner to redevelop selected larger Council owned development sites, delivering 50+ units per site.

4.3 Hidden Homes

- 4.3.1 A pilot programme was approved by the Cabinet in January 2012 to build 25 new affordable homes. Expenditure of £2.7 million was approved from the decent neighbourhoods fund.
- 4.3.2 The first development was completed at Becklow Gardens Estate, where two new units were built and sold to applicants on the Council's HomeBuy register. Sale proceeds of £468,000 were realised against development costs of £123,000, producing a positive gross return of £345,000 (including retained equity).
- 4.3.3 Planning consent has been secured for three further sites and applications submitted for three more (decision is expected at 8 May 2013 Planning Application Committee). The six schemes are due to start on site from spring 2013 subject to final approvals in line with the Cabinet report of 30th January 2012: Housing Company Development – Delivering Affordable Housing. Residents at each of the estates have been notified and consulted regarding the proposals and have contributed to the design process.

4.4 New Build Innovative Housing

- 4.4.1 In December 2012 Cabinet approved the establishment of a Framework for Innovative Housing Built Using MMC (the 'Framework') with City House Projects Limited (CHPL) as the single provider. CHPL is a subsidiary company of Rational House and was created to provide all the services and commercial expertise necessary to deliver the Rational House product. The CHPL partners, Davis Langdon (cost consultancy, project & development management) and AECOM (engineering, site surveys, design and planning) are established in their respective fields. This Framework now allows the Council to build innovative new housing using the Rational House model (see Appendix A for further detail).
- 4.4.2 The Cabinet authorised expenditure of £50,000 for professional services to undertake resident consultation, site investigation surveys, and design of the Pilot Site at Spring Vale Estate to planning stage (see Section 6 of the report for further detail). It was agreed that the building contractor will be appointed through the SCAPE Framework, which is a single contractor framework, set up by Scape System Build Limited (a wholly owned local authority company based in the Nottingham & Derby areas).
- 4.4.3 Subject to feasibility work and resident consultation a further Cabinet report was required setting out detailed development proposals for the Pilot Site and approval for funding to undertake detailed design and construction. In order to devise a new build development pipeline it was agreed that officers will review potential for additional development sites and report back to Cabinet with a development and funding programme.

4.5 Housing & Regeneration Joint Venture

- 4.5.1 Following Cabinet approval on 12 November 2012, the Council initiated an OJEU procurement exercise to identify a private sector partner to establish a long term Joint Venture.
- 4.5.2 Following receipt of the Pre-Qualification Questionnaires in January 2013, the Invitation to Negotiate (ITN) was sent out to seven shortlisted bidders in February 2013. The next stage of the procurement is the return of the ITN submissions in April 2013 and following evaluation, three bidders will be shortlisted to go forward to the final stage in May 2013. The final submissions from the three bidders are expected in July 2013 and it is anticipated that a Cabinet report identifying the preferred bidder will be prepared for consideration in December 2013.
- 4.5.3 The initial two sites that are to be redeveloped through the Joint Venture are Watermeadow Court and Edith Summerskill House. These two sites combined are expected to generate total return to the Council of £24.2million (land receipt and share of development profit) and development of more than 186 new homes (including approximately 40% affordable low cost home ownership housing).
- 4.5.4 The Joint Venture will comprise a governance structure within which the Council can retain equal control and influence site delivery, whilst also enabling the Council to access the skills, resources and capacity of the private sector partner. This approach will reduce the level of risk to which the Council is exposed and enable the Council to access funding from the private sector. This route allows the Council to derive greater value from disposal of surplus land through the sharing in development profits, in addition to attracting land value.

5. INTRODUCTION

- 5.1 This report sets out a detailed development proposal for the Pilot Site at Spring Vale Estate as part of the New Build Innovative Housing programme and seeks approval for further funding to proceed to detailed design and construction phase (subject to planning approval). It also provides details of two further sites, where development of new housing would be possible as part of this programme, and seeks approval to undertake work to develop detailed development proposals, including design and resident consultation up to planning submission stage for each.

6. PILOT SITE – DETAILED DEVELOPMENT PROPOSAL

- 6.1 The Pilot Site is located on the Spring Vale Estate in Brook Green. The site comprises c.1,310sqm low quality hard standing on the corner of Ceylon Road and Porten Road, which has historically been underutilised as estate parking and garages. Surrounding the development site is a mix of residential apartment blocks and late Victorian terraced houses within a Conservation Area. A site plan and photographs are included in Appendix B.

6.2 Design & Planning

- 6.2.1 Following Cabinet approval in December 2012 to appoint CHPL to provide professional services to undertake consultation, site investigation surveys, and design for the Pilot Site, a detailed development proposal has been produced. A summary of the scheme design is presented in Appendix B.
- 6.2.2 The proposal is for ten new properties, which comprises a four storey block providing eight flats and two family houses. A schedule of the properties is provided in the table below:

Table A: Spring Vale Schedule of Properties

Property Type	No. of units	Size (m²)	Tenure
Ground Floor Flat (1b2p)	2	52	DMS
First Floor Flat (2b4p)	2	61	DMS
Second Floor Flat (2b4p)	2	61	DMS
Top Floor Maisonette (2b4p)	2	87	Private
House (3b6p)	2	142	Private

- 6.2.3 Six of the properties will be affordable which will be sold on a Discount Market Sale (DMS) basis to applicants on the Council's HomeBuy register (see section 6.6), and four will be private for sale to cross-subsidise the affordable housing. All dwellings will fully comply with London Housing Design Guidelines and Lifetime Homes Standards.
- 6.2.4 The development will be set back from Ceylon Road, to create an area of open space and parking, accessed from Ceylon Road. Private space will be provided for each of the new units where possible, including patios and terraces, in addition to the communal open space/garden. The existing trees surrounding the site will be retained and additional planting is proposed, which will be agreed in consultation with local residents. A second parking area is proposed to the east of the development providing replacement estate parking.
- 6.2.5 An application for the formal planning pre-application was submitted on 5 February 2013 and a meeting held with planners on 20 March 2013. A full planning application is scheduled to be submitted w/c 24 April 2013 and a decision is expected at the September 2013 Planning Application Committee.
- 6.2.6 The scheme design is based on the Rational House model and will be built using MMC. A summary of the key characteristics of Rational House model is set out below:
- Can deliver high density low rise developments.
 - Is capable of rapid assembly using modern MMC in a variety of configurations to create family dwellings and/or flats of different sizes.
 - Can be aggregated to form pleasant and familiar urban forms, including terraced streets, town squares and mews courts, but can also be inserted individually or in small numbers into existing difficult and dimensionally challenging infill sites.
 - Is highly flexible in its fitting-out, capable of accommodating changing family structures and ages, and permitting subdivisions and re-combinations of tenancies.

- Is easily adaptable to other uses both at the outset of development and also later in the life cycle of the fabric (i.e. small offices, retail and/or live work accommodation).
- Provides generous standards for internal floor space, high ceilings and natural light, and provides an essential minimum of private outdoor amenity space, whilst maintaining relatively high density.
- Has a high-quality external appearance which is clean and modern, but also compliments the existing street scene in Hammersmith and Fulham.
- Conforms to current Building Regulations and complies with important non-mandatory standards, including the London Housing Design Guide, the Code for Sustainable Homes (min. Level 4), Lifetime Homes and Secure by Design, making it a product which is endorsed by mainstream mortgage and other lenders.
- Can be provided to a cost which is competitive in the context of new urban housing, offering different levels of quality, both in build form and fit-out, that make it suitable for affordable and private for sale units.

6.3 Resident Consultation

6.3.1 An important part of the scheme development is resident and stakeholder engagement which has been undertaken with residents of the Spring Vale Estate and wider area (Ceylon Road and Porten Road). This has included a resident drop-in event on 25 February 2013, briefing South Hammersmith Area TRA Forum on 11 March 2013, presentation to Spring Vale Estate TRA meeting on 27 March 2013, a questionnaire survey of local residents, and a newsletter. In addition there has been active engagement with the ward member and the Chair of the TRA.

6.3.2 There has been an excellent response to the consultation both in terms of attendance at meetings, and drop-in events (c. 40 attendees), and also questionnaire returns (29 responses). In general the responses have been positive, in particular regarding:

- Provision of new affordable accommodation for low cost homeownership
- Improvements to public realm and surface parking
- Retention of trees and additional greenery on the estate
- Design of the new properties
- Proposal to create a safer neighbourhood

6.3.3 There were also a number of concerns raised through the consultation process, which have resulted in design modifications. These included:

- Possible reduction in estate parking provision
- Vehicle access to Ceylon Road
- Impact of the new development on daylight/sunlight levels for existing residents
- Height of the new buildings
- Possible reconfiguration of open space

6.3.4 The design process has taken on board resident feedback and incorporates the following key principles and design considerations:

- Protection of mature trees
- Minimal impact on daylight/sunlight levels

- No increase in on-street parking
- Re-provision of surface parking where required
- Provision of improved landscaped open space
- Design to integrate into the existing street scene
- Provision of high quality architecture
- Built using MMC (reduce impact of construction work for existing community)
- Provision of affordable low cost home ownership housing targeting local residents

6.4 Financial Appraisal

6.4.1 A detailed financial appraisal has been undertaken for the Pilot Site to assess scheme viability. The key highlights are:

(a) Construction Costs

A detailed Cost Plan has been received from Willmott Dixon Capital Works Limited (through the SCAPE framework). This has been reviewed and agreed with CHPL. Details of the Cost Plan are included in Appendix B. Further cost engineering will be undertaken to reduce costs where possible and subject to Cabinet approval a fixed price contract will be entered into with Willmott Dixon Capital Works Limited for the construction of the scheme for a total fixed price fee, currently valued at £2.5m (c£2,600/m²) for construction costs. The Council sought advice from Lambert Smith Hampton (LSH) for an independent view on the level of costs proposed by reference to Building Cost Information Service (BCIS). The index reflects the regional impact of the Hammersmith location but other site and scheme specific adjustments have to be made to make a reliable like for like comparison. LSH have adjusted the BCIS figures to reflect site abnormal expenditure, fit out specification of the houses, high floor/ceiling heights, supply chain risk premium (Pilot Site) and small volume fabrication premium. LSH have applied a 40% uplift to BCIS pricing to reflect these factors. The construction cost plan provided by Willmott Dixon Capital Works Limited exceeds the adjusted BCIS price by c10%. Further value engineering is expected to reduce this premium.

(b) Professional Fees

CHPL have provided a fee schedule for all professional services required to deliver the Pilot Site scheme (excluding sales and marketing services) as part of the procurement exercise to establish Framework. Based on the approved fee of £50,000 CHPL have provided the necessary professional services relating to resident consultation, site investigation surveys and design to planning for the Spring Vale scheme, including the production of detailed development proposal⁵. The total CHPL fee to deliver the Pilot Site is £290,000.

(c) Sales Valuations

Savills have provided an assessment of sales values for all units built on the Spring Vale scheme (a valuation report is attached at Appendix C), and also provided initial advice on fit out specifications required to match the value aspirations for the private for sale units. Further specification reviews will be undertaken - taking on board Savills advice where relevant - as the detailed design for the scheme is progressed with the view to achieving values in the higher end of the Savills estimated sales value range. Going forward the Council

⁵ The original £50,000 represented a discount on actual cost to take to planning on the basis that CHPL agreed to do 50% at risk for the Pilot Site

will require a sales and marketing agent for the private for sale units and further detailed advice on specification. A procurement exercise to appoint an agent is currently being undertaken and it is recommended that authority be delegated to the Cabinet Member for Housing and the Executive Director of Housing & Regeneration to appoint an agent following the procurement exercise. The DMS properties will be sold through the Council's HomeBuy Team (see section 6.6).

- 6.4.2 A summary of the scheme development appraisal (as set out in Appendix D) is presented in the table below.

Table B: Spring Vale Appraisal Summary – Central case

Gross Development Value ⁶	£5,550,000
Development costs	£3,444,000
Available return:	
Development surplus (additional cash for reinvestment)	£687,000
Retained equity (by the Council)	£1,419,000

- 6.4.3 Based on the central business case assumption the surplus is £0.7m (20% surplus on cost). This is subject to site survey, consultation, planning, procurement, construction and sales risks (further details are presented in appendix B).
- 6.4.4 The central business case assumptions include a 10% project contingency (£0.3m) and 5% construction contingency (£0.1m) and assume DMS household income of £36,000 per annum. A further £0.2m cash surplus could be realised by raising the DMS household income to £43,300⁷.
- 6.4.5 The table below sets out the surplus on cost in £'000 and % terms of changes in Savills Open Market Valuations (OMV) to the private units and total scheme costs.

⁶ Gross Development Value (GDV): The aggregate Market Value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date. i.e. the sales values. GDV is based on the mid-point value provided by Savills.

⁷ See paragraph 6.6.3 for an explanation

Change in private OMV			Change in total scheme costs				
2B M'nette	3B House	Change	10.0%	5.0%	0.0%	(5.0%)	(10.0%)
£'000	£'000		3,789	3,616	3,444	3,272	3,100
495	990	(10.0%)	20.9 0.6%	192.8 5.3%	364.6 10.6%	536.5 16.4%	708.3 22.9%
523	1,045	(5.0%)	181.9 4.8%	354.0 9.8%	526.0 15.3%	698.0 21.4%	870.0 28.1%
550	1,100	0.0%	342.9 9.1%	515.1 14.2%	687.4 20.0%	859.6 26.3%	1,031.8 33.3%
578	1,155	5.0%	503.9 13.3%	676.3 18.7%	848.7 24.6%	1,021.1 31.2%	1,193.5 38.5%
605	1,210	10.0%	664.9 17.5%	837.5 23.1%	1,010.1 29.3%	1,182.7 36.1%	1,355.2 43.6%

Assumptions:

- Private for sale units comprise two maisonettes & two family houses
- OMV central case is based on Savills mid-range valuation
- Total scheme costs include:
construction costs, professional & statutory fees, sales & marketing fees & contingency
- Assumes a nil site value and excludes grant

6.4.6 In the event that sales values are realised at the lower end of the Savills range, the development surplus would be reduced to £365,000. In addition, should the construction costs also increase by 10% the scheme would still breakeven, achieving a surplus of £20,000, excluding the retained equity and assuming DMS household income of £36,000.

6.4.7 Mortgage advice has been secured from Halifax and JDC Financial Services to ensure that the new properties will meet bank standard lending criteria for the DMS properties JDC have confirmed that there are four mainstream mortgage lenders currently willing to lend on these homes within the scheme.

6.5 Programme

6.5.1 A detailed programme is attached at Appendix B and a summary of key milestones is set out in the table below.

Table C: Spring Vale Timetable

Tasks	Timetable
Submit planning application	w/c 24 April 2013
Cabinet approval	13 May 2013
Commission pre-contract detailed design	20 May 2013
Planning approval	September 2013
Start on site	November 2013
Practical completion from	August 2014

6.6 Affordable Housing

- 6.6.1 The Council prefers to see low cost home ownership housing delivered on a DMS basis, to improve the mid-market offer and deliver a more flexible product. DMS is preferable to Shared Ownership as no rent is charged to the purchaser on the unsold portion of the equity. This has the advantage of making homeownership more affordable by reducing the proportion of household income which is spent on housing costs and in some cases allows the purchaser to buy a bigger percentage share of the property.
- 6.6.2 House prices and market rents are high in the borough which means that low cost home ownership housing needs to be affordable to a broad range of incomes. It also needs to be on average affordable by the midpoint income set by the Mayor in the London Plan.
- 6.6.3 The Council's HomeBuy register has around 4,700 people (who are either residents of the borough and/or work in the borough) on its database and analysis shows us that the majority of these have income between £20,000-£40,000. Generally the Council would target a third of the low cost home ownership housing developed to be affordable to households with an annual gross incomes of up to £30,000, a third to be affordable to households with an annual gross income of up to £40,000 with the remaining third to be developed for annual gross household incomes of up to £60,000⁸. This equates to an average household income of £43,300. The viability of the Pilot Site has allowed the average household income to be reduced to £36,000 .
- 6.6.4 The Council's HomeBuy Team offers a service to identify and enable individuals to move into low cost home ownership in the borough, through acting as the mediator between the housing providers and residents seeking affordable home ownership. The HomeBuy Team will undertake the process of identifying suitable applicants from the HomeBuy register. It is intended that for the Spring Vale scheme targeted marketing and communication will be undertaken to maximise take up by the residents of the Spring Vale Estate and the surrounding area who are seeking to get on to the housing ladder.

6.7 Next Steps

- 6.7.1 Based on scheme design and viability assessments undertaken to date, endorsement of the Housing Development Project Board has been secured to seek Cabinet approval for the balance of the full development costs of £3,394,000⁹, from the decent neighbourhoods fund, to build out the Pilot Site scheme at Spring Vale Estate. The full development costs comprises the balance of £240,000¹⁰ CHPL fees (design, project management, surveys, CMDC, etc); construction costs of £2,504,000; Scape framework and pre-construction fees of £70,000; sales and marketing costs of £82,000; and statutory fees and contingency of £498,000. A nil value is assumed for the site and finance costs. The total return to the Council is projected to be £2,106,000 (surplus and retained equity).

⁸ Upper limited increase to £77,200 for 3+ bedroom units

⁹ Excludes previously approved £50,000

¹⁰ Excludes previously approved £50,000

- 6.7.2 In the December 2012 Cabinet report, it was anticipated that the development will be undertaken through H&F Housing Development Ltd (HFD). This would require the Council to dispose of the development site to HFD and for HFD to secure a loan, at a commercial interest rate from the Council, to undertake the development. However, recent legal advice from Eversheds has confirmed that the Council is able to undertake the development activity directly. Pricewaterhouse Coopers have also provided taxation advice looking at SDLT, VAT and corporation tax which confirms that there is no financial disadvantage to the Council if the housing development activity is undertaken directly and administratively it is more efficient.
- 6.7.3 Whilst the Council's housing development company structure remains an appropriate delivery mechanism, the freedoms and flexibilities introduced through the Localism Act and HRA Reform – together with the Council's clear policy articulation through the adopted Housing strategy - allows the Council to now undertake a greater range of housing development activities directly. This includes the Council directly developing - without the need to undertake through an arm's length development company - private for sale and low cost home ownership housing (such as Discount Market Sale) to achieve its aims and objectives of creating a ladder of housing opportunity as set out in the Housing Strategy. A further Cabinet report detailing the housing development programme business plan and programme delivery mechanism will be presented separately.

7. DEVELOPMENT PIPELINE

- 7.1 In addition to the Pilot Site it was agreed that officers will review potential for a pipeline of new build development opportunities and report back to Cabinet with a development and funding programme for approval. Two potential schemes have been identified at Becklow Gardens and Barclay Close. CHPL have undertaken initial appraisals which are detailed below.

7.2 Becklow Gardens

- 7.2.1 The proposed development site in Becklow Gardens Estate (Shepherds Bush area) presents an infill development opportunity by redeveloping the existing estate garages. The site comprises 20 garages (c.1,300sqm) on Askew Crescent, which have historically been underutilised and require modernisation. It would be possible to convert the site to create twelve new homes and also re-provide an element of car parking with a revised layout. The new housing development would create an opportunity to rebuild the traditional street scene and provide much needed new affordable housing. Further site details are provided in Appendix E.
- 7.2.2 As part of the Hidden Homes programme initial designs were produced for this site and a resident engagement exercise was undertaken. A drop-in event was held on 14 November 2012 (24 attendees) and questionnaires were sent to all estate residents, garage licensees and residents of the wider area. Twenty responses were received to the questionnaire and in general residents supported the proposals to improve the area and provide new affordable housing. In addition to the consultation exercise a detailed parking assessment, including garage inspections is currently being undertaken.
- 7.2.3 Due to the constrained nature of the site and inherent design challenges (based on initial feedback from Planning) it is proposed that this scheme be considered

for the Rational House model, which is better suited for developments of this nature.

7.2.4 CHPL have completed an initial appraisal for an indicative twelve unit scheme (see Appendix E for the outline design concept) which comprises:

- 6 flats (1 bedroom)
- 6 maisonettes (2/3 bedroom).

7.2.5 Valuation advice has been provided by Savills (valuation report attached at Appendix C). An indicative development appraisal is presented in Appendix F and a summary is presented in the table below. The construction costs used within the development appraisal are based on the rate used for the Spring Vale scheme (£2,600m/2).

Table D: Becklow Gardens Appraisal Summary

Gross Development Value ¹¹	£4,090,000
Development costs	£3,043,000
Available return:	
Development surplus (additional cash for reinvestment)	£307,000
Retained equity (by the Council)	£740,000

7.2.6 Based on the CHPL fee schedule (agreed as part of the Framework agreement) it is estimated that the professional fees required to undertake all necessary resident consultation, site investigation surveys and design to planning (RIBA stage D) for the Becklow Gardens site is £140,000¹². Therefore, approval is sought to commission CHPL to develop detailed development proposal for this site, including detailed sensitivity analysis. However, prior to commissioning CHPL (which will be in phases) the Housing Development Project Board will also consider options for construction methodology to ensure value for money is achieved and where appropriate the work will be let in phases to minimise abortive costs.

7.3 Barclay Close

7.3.1 A second site at Barclay Close (Fulham Broadway area) has been identified for development. As part of the Housing Estate Improvement Programme (HEIP) the Council is proposing to undertake a package of environmental works to Barclay Close and Fulham Court estates, to improve the quality, safety and sustainability whilst also supporting the Council's aim of integrating Council housing estates within the neighbouring streets and communities. In particular the HEIP scheme will:

- open up and better integrate the estate with the surrounding areas
- improve access to, and flow through the estate
- facilitate better use of the Tudor Rose centre
- improve parking for bicycles and vehicles
- deliver general public realm improvements

¹¹ Gross Development Value: The aggregate Market Value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date. i.e. the sales values. GDV is based on the mid-point value provided by Savills.

¹² Includes building regulation and planning fees of £15,000

- improve safety through lighting improvements, CCTV upgrades and play area improvements which support constructive diversionary activity
- 7.3.2 Resident engagement has been undertaken, through both a door knocking exercise and resident drop-in events, to promote and consult on the HEIP proposals.
- 7.3.3 In addition to the HEIP proposals, there is an opportunity to build six new homes on an area of the estate amenity land, which has historically been underutilised for parking. The site comprises c.300sqm low quality hard standing adjoining Cassidy Road. It would be possible to convert the site to create new homes and also re-provide an element of car parking with a revised layout. The new housing development would provide much needed new affordable housing, and support the wider HEIP scheme. Further site details are provided in Appendix G.
- 7.3.4 CHPL have completed an initial appraisal for an indicative six unit scheme (see Appendix G for outline design concept) which comprises:
- 3 flats (1 bedroom)
 - 3 maisonettes (2/3 bedroom)
- 7.3.5 Valuation advice has been provided by Savills (valuation report attached at Appendix C). An indicative development appraisal is presented in Appendix H and a summary is presented in the table below. The construction costs used within the development appraisal are based on the rate used for the Spring Vale scheme (£2,600m²).

Table E: Barclay Close Appraisal Summary

Gross Development Value ¹³	£2,520,000
Development costs	£1,498,000
Available return:	
Development surplus (additional cash for reinvestment)	£312,000
Retained equity (by the Council)	£710,000

- 7.3.6 Based on the CHPL fee schedule (agreed as part of the Framework agreement) it is estimated that the professional fees required to undertake all necessary resident consultation, site investigation surveys and design to planning (RIBA stage D) for the Barclay Close site is £90,000¹⁴. Therefore, approval is sought to commission CHPL to develop detailed development proposal for this site, including detailed sensitivity analysis. However, prior to commissioning CHPL (which will be in phases) the Housing Development Project Board would also consider options for construction methodology to ensure value for money is achieved and where appropriate the work will be let in phases to minimise abortive costs.
- 7.3.7 In summary, for the Becklow Gardens and Barclay Close sites approval is being sought at this stage only for the professional fees (£230,000 from the decent neighbourhoods fund) to commission CHPL to undertake design, consultation

¹³ Gross Development Value: The aggregate Market Value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date. i.e. the sales values. GDV is based on the mid-point value provided by Savills.

¹⁴ Includes building regulation and planning fees of £10,000

and viability assessments to submission of planning stage. A further report will be brought before the Cabinet requesting approval to proceed with the development, which will contain a full development appraisal with full sensitivity analysis and a cash flow forecast for both (which requires schemes to achieve a 20% surplus on cost). It will also set out in detail financial and development risks and delivery mechanisms.

8. EQUALITY IMPLICATIONS

8.1 See Appendix I for the full Equalities Impact Assessment.

9. LEGAL IMPLICATIONS

9.1 There are no legal implications at this time.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Approval is requested to commit a further £3,394,000 for investment in Spring Vale to develop 10 new properties and £230,000 to develop detailed development proposals for Becklow Gardens and Barclay Close. Funding for both of these workstreams will be provided from the decent neighbourhoods fund.

10.2 The Housing Development Board will re-review the viability of the Spring Vale scheme before finally approving the appointment of Willmott Dixon Capital Works Limited on a fixed price contract to complete construction to ensure it remains in line with expectations as this appointment will be subject to planning consent being received and a detailed cost plan being produced following a CHPL value engineering exercise. This will reduce the risk of construction cost overruns subject to Council-led specification changes during construction. A credit check will be carried out on Willmott Dixon Capital Works Ltd prior to entering into the proposed construction contract.

10.3 In addition to a contingency of £102,000 to engage the construction contractor, the development appraisal for the Spring Vale scheme includes a project contingency of £313,000 (approximately 10% of costs). This project contingency will be closely monitored throughout the development with any movements requiring prior approval from the Housing Development Board.

10.4 Section 6.4 refers to the detailed financial appraisal and sensitivity analysis which has been carried out to provide the Council with assurance of the proposal's financial viability within a range of sensitivities. For example, increasing the Spring Vale scheme total costs by 10% reduces the development appraisal surplus to £0.3m (from £0.7m).

10.5 Additionally, Savills have provided advice regarding the anticipated range of sales values for the private units in the Spring Vale scheme. The development appraisal assumes the mid-point in the Savills' range and demonstrates a surplus of £0.7m. A 10% shortfall in values (broadly the bottom end of Savills range) would reduce the development surplus to £0.4m.

- 10.6 If the Spring Vale scheme uses the entire project contingency of £0.3m, the costs overrun further by 10% (£0.3m) and the private sale values are at the lower end of Savills range the scheme would make a surplus of £0.02m.
- 10.7 A fixed price contract will be entered into with Willmott Dixon Capital Works Ltd for the construction of the Spring Vale scheme at an estimated value of £2.5m (c£2,600/m²) subject to value engineering. The Council sought advice from Lambert Smith Hampton (LSH) for an independent view on the level of costs proposed by reference to Building Cost Information Service (BCIS). The index reflects the regional impact of the Hammersmith location but other site and scheme specific adjustments have to be made to make a reliable like for like comparison. LSH have adjusted the BCIS figures to reflect site abnormal expenditure, fit out specification of the houses, high floor/ceiling heights, supply chain risk premium (Pilot Site) and small volume fabrication premium. LSH have applied a 40% uplift to BCIS pricing to reflect these factors. The construction cost plan provided by Willmott Dixon Capital Works Limited exceeds the adjusted BCIS price by c10%. Further value engineering is expected to reduce this premium.
- 10.8 Preliminary mortgage advice has been obtained from Halifax and JDC Financial Services which confirms that the new properties will meet bank standard lending criteria and that at least four mainstream mortgage providers will currently lend on the DMS properties. However it should be noted that there remains a risk that the mortgage market may change and that, especially due to the non-traditional methods of construction, mortgages may become difficult to raise for these properties at the time of the proposed sale.
- 10.9 There is a risk that the costs of £230k relating to the development proposals for Becklow Gardens and Barclay Close may be revenue in nature due to the fact that they will be incurred before the development of the sites have been approved by Cabinet, because of the nature of the expenditure to be incurred, and as a result of the potential for these costs to be abortive. This risk will be minimised by letting this work in tranches ensuring that expenditure is limited in the event that a feasibility issue emerges.
- 10.10 The Council currently holds a series of Section 106 agreement funds of £791k , which are ringfenced for use for affordable housing and regeneration purposes. The cost of £230k, together with existing approved calls on this balance, bring the total potential call on these funds to £1,199k. In the event that costs charged against this pot all crystallise, and prove not to be capitalisable or rechargeable, then there would be a net under budgeted charge to the HRA of £408k in 2013/14, the risk of this is being managed and it is currently considered unlikely to crystallise but continue to be monitored on an on-going basis.
- 10.11 The Becklow Garden scheme is currently only showing a surplus of 10%. As noted in 7.3.7 above a further report to Cabinet will be required to approve the Council's commitment to proceed with the scheme - which will need to demonstrate the schemes viability. It is expected that the viability of the scheme will be improved by a combination of value engineering and GLA grant funding.

11. RISK MANAGEMENT

- 11.1 A risk log is provided for the Pilot Site (Appendix B) and the proposed two further development schemes at Becklow Gardens (Appendix E) and Barclay Close (Appendix G).

- 11.2 Following Cabinet approval in December 2012 detailed site due diligence and scheme viability assessment has been undertaken for the Pilot Site. In addition, resident and other stakeholder consultation has been undertaken along with the formal pre-application process with Planning, which has assisted in developing the scheme design. A detailed cost plan has been developed with the contractor for the full development costs and advice has been secured from a market leading agent in terms of sales values.
- 11.3 In terms of future sites similar phased approach is proposed to financial commitment for the development, which is intended to minimise Council's exposure to financial and any reputation risks.
- 11.4 The Rational House prototype building in Hammersmith (Biscay Road) has been successfully built (within a very constrained urban residential site) and sold on the open market. This development was welcomed by the GLA and has received considerable interest recently from other authorities including Westminster City Council. As part of the tender appraisal process to establish the Framework the Council has undertaken a financial check on CHPL, whose partner organisations, Davis Langdon and AECOM are established in their respective fields.
- 11.5 Management of risk relating to the proposal are the responsibility of the Housing and Regeneration Department. A risk register exists for the purpose of recording and monitoring the departmental risks and this will be updated to reflect the report content.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1 There are no procurement related issues at this time as the Council intends to call off services from an existing framework agreement, which was approved by Cabinet in December 2012.

Schedule of Appendices:

- Appendix A: Rational House Brochure
- Appendix B: Spring Vale Update Report
- Appendix C: Savills Open Market Valuation Report
- Appendix D: Spring Vale Development Appraisal
- Appendix E: Becklow Gardens Initial Appraisal Report
- Appendix F: Becklow Gardens Development Appraisal
- Appendix G: Barclay Close Initial Appraisal Report
- Appendix H: Barclay Close Development Appraisal
- Appendix I: Spring Vale Equalities Impact Assessment

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Housing Development Company (Cabinet Report, April 2011)	Eric Holroyd	HRD
2.	Establishment of Framework for Innovative Housing Built Using Modern Methods of Construction (Cabinet, Dec 2012)	Eric Holroyd	HRD
CONTACT OFFICER:		NAME: Eric Holroyd EXT. 2734	