

 the low tax borough	London Borough of Hammersmith & Fulham CABINET MEMBER DECISION
CONVERSION OF 129 & 131 BLOEMFONTEIN ROAD – DETAILED DEVELOPMENT PROPOSAL & FINANCIAL APPRAISAL	
Report of the Cabinet Member for Housing, Councillor Andrew Johnson	
Open Report	
Classification: For Decision Key Decision: Yes	
Wards Affected: Wormholt and White City	
Accountable Executive Director: Melbourne Barrett, Executive Director Housing & Regeneration	
Report Author: Eric Holroyd, Development Officer	Contact Details: Tel: 020 8753 2734 E-mail: eric.holroyd@lbhf.gov.uk

AUTHORISED BY:

The Cabinet Member has signed this report.

DATE: 3 July 2013

1. EXECUTIVE SUMMARY

- 1.1. The Council recognises that local authorities have a key role to play in unlocking new housing growth through effective asset management and will seek to deliver affordable and mixed tenure residential schemes on Council owned land to achieve the objectives set out in the Housing Strategy.
- 1.2. This report seeks approval to invest £192k (to be funded from the decent neighbourhoods fund) to deliver two new affordable homes at 129 & 131 Bloemfontein Road, as part of its housing development programme, by September 2013. The scheme will generate a development surplus of £39k (20% on cost) for housing and regeneration purposes (with additional retained equity of £199k).
- 1.3. This scheme is part of the Housing Development Programme Business Plan (2013-2017), which was approved by Cabinet on 24 June 2013.

2. RECOMMENDATIONS

- 2.1. To approve the following under the delegated authority given in the Housing Development Programme Business Plan approved by Cabinet on 24 June 2013 with immediate effect:
 - 2.1.1. To consider and approve the detailed development proposal and financial appraisal for the scheme at 129 & 131 Bloemfontein Road, which will enable practical completion by September 2013.
 - 2.1.2. To note that the enabling works have been completed on 24 May 2013 and a limited scope of works has already commenced under the voids contract delegated authority.
 - 2.1.3. To note that the development will be undertaken directly by the Council (see section 5 for an explanation).
 - 2.1.4. To approve expenditure of £192k for the total development costs that comprises:
 - a. Construction costs (£144k)
 - b. Professional & statutory fees (£26k)
 - c. Sales and marketing fees (£5k)
 - d. Contingency (£17k).
 - 2.1.5. To approve the instruction of the Council's Term Voids Contractor, Willmott Dixon Partnerships Limited (WDP), to carry out the construction work.
 - 2.1.6. That authority be delegated to the Executive Director of Housing & Regeneration, in conjunction with the Cabinet Member for Housing, to set the final household income levels required to purchase the Discount Market Sale units.

3. REASONS FOR DECISION

- 3.1. As set out in the Council's housing strategy '*Building a Housing Ladder of Opportunity*' the Council has an ambition to create a ladder of housing opportunity through increasing levels of home ownership for local people, especially low cost homeownership. This report seeks Cabinet approval for the full development costs to deliver the new affordable housing scheme at 129 & 131 Bloemfontein Road.

4. INTRODUCTION AND BACKGROUND

- 4.1. The Council has an ambition to create a ladder of housing opportunity through increasing levels of Homeownership 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 first Council led 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 £468k were realised against development costs of £123k producing a positive gross return of £345k (comprised of cash of £122k plus retained equity of £223k).
- 4.3. The development team have produced a detailed development proposal and financial appraisal for a new affordable housing scheme on Bloemfontein Road. This report provides details of the development proposal and financial appraisal for the Bloemfontein Road scheme.
- 4.4. This scheme is included within the Council's 4 year Housing Development Programme Business Plan, 2013 – 2017 (Business Plan), which was approved by Cabinet on 24 June 2013. A limited scope of work has been carried out to date under the voids contract and associated delegations.

5. PROPOSAL

Site Description

- 5.1. The site is located on the White City Estate in the north of the borough. The properties are south of the A40 and are a short distance from White City, Wood Lane and Shepherds Bush Market tube stations. A red line plan of the site is included at Appendix 1.
- 5.2. The properties are located on the ground floor of Abercrombie House (a five storey residential block). Originally the premises was designed as a single dwelling and used as a doctor's surgery. This use ceased in circa 1989 and the property was converted, by the Council, into two separate properties. These properties have been used for a number of different

community uses, which ceased in April 2012, and are no longer required for this purpose. The properties have remained vacant since this date. Photographs of the properties are presented below.

Site Photographs – Bloemfontein Road Scheme



Design Proposal

- 5.3. The proposal is to convert the premises into new residential accommodation. The two new properties will be affordable units, which will be sold on a Discount Market Sale (DMS) basis to applicants on the Council's HomeBuy register. Where possible the scheme has been designed to comply with London Housing Design Guidelines and Lifetime Homes Standards. The existing and proposed plans are presented in Appendix 2 and a schedule, of the properties, is presented below.

Table A: 129 & 131 Bloemfontein Road Schedule of Properties

Property Type	No. of units	Size (m ²)	Tenure
Ground floor flat (2b3p)	2	146 (73 per unit)	DMS

- 5.4. A change of use planning application was secured at 8 May 2013 Planning Application Committee.

6. FINANCIAL APPRAISAL & SENSITIVITY ANALYSIS

- 6.1. A detailed financial appraisal has been undertaken for the Bloemfontein Road scheme. The construction costs have been provided by WDP, based on the design proposals and schedule of works produced by Baily Garner (Development Agent for the Hidden Homes programme). The total fixed price for construction costs¹ is £131k (c£1,000/m²)².
- 6.2. The contract will be let, using the Council's Term Voids Contract, as a JCT standard building contract and be separated in to three work packages;

¹ A schedule of works is presented with the development appraisal at appendix 3.

² This is consistent with the rate achieved at Becklow Gardens conversion scheme (c£900/m²)

enabling, construction and external works. The enabling works were completed on 24 May 2013 (following earlier approval).

- 6.3. A summary of the financial appraisal is presented below and a detailed appraisal is attached at Appendix 3.

Table B: 129 & 131 Bloemfontein Road Summary Appraisal

Gross Development Value	£430k
Development Costs	£192k
Available Return:	
Development Surplus (cash)	£39k
Retained Equity	£199k
Retained Equity percentage	46.27%

- 6.4. The scheme surplus is £39k (20% surplus on cost). The financial appraisal includes a 10% project contingency (£17k), and assumes DMS household incomes of £30k per annum. A further £102k cash surplus could be realised by raising the DMS household incomes to £43.3k.³
- 6.5. The table below sets out the surplus on cost in £000 and % terms of change in the household incomes for the DMS units (DMS sales receipt) and total scheme costs.

Table C: Sensitivity Analysis

Profit on cost £'000 and % sensitivity					
H'hold income	Change in dev costs				
	10.0%	5.0%	0.0%	(5.0%)	(10.0%)
	212	202	192	183	173
£30k	19.3 9.1%	28.9 14.3%	38.6 20.0%	48.2 26.3%	57.8 33.4%
£40k	96.3 45.5%	105.9 52.4%	115.6 60.0%	125.2 68.5%	134.8 77.8%
£43.3k	121.7 57.5%	131.3 65.0%	141.0 73.2%	150.6 82.4%	160.2 92.5%
£60k	218.3 103.1%	227.9 112.8%	237.6 123.4%	247.2 135.2%	256.8 148.3%
Assumptions: <ol style="list-style-type: none"> 1. DMS household central case based on £30k 2. Total scheme costs include: construction costs, professional & statutory fees, sales & marketing & cont. 3. Assumes a nil site value and excludes grant 					

- 6.6. In the event that construction costs increase by 10% the development surplus would be reduced to £19k, excluding the retained equity and assuming DMS household incomes remain at £30k. As stated above DMS household incomes could be raised to achieve additional surplus, if required for viability reasons⁴.

³ Borough DMS guidance suggests a third of DMS properties should be affordable at £30k, a third at £40k and a third at £60k (Average £43.3k)

⁴ The Business Plan approved by Cabinet on 24 June 2013 sets out the following viability criteria:

- maximise the proportion of DMS units delivered

- 6.7. It should be noted that this scheme is financially viable and does not require the £27k per unit grant, which will be received from the Mayor's Housing Covenant. Instead the £54k (£27k per unit) received on practical completion of the two units will be retained within the Council's internal grant pool and used on future affordable housing schemes included in the Business Plan.

Business Plan Commentary

- 6.8. This scheme is included within the Business Plan approved by Cabinet on 24 June 2013.
- 6.9. Since the original estimates the schedule of works has been revised to include an acoustic ceiling and additional external works required to meet the planning conditions. WDP costs are circa £30k above those reported in the Business Plan and household incomes of the perspective buyers have been raised from £25k (as per the Business Plan) to £30k to ensure the scheme will achieve a 20 per cent surplus on cost.
- 6.10. The development costs will be monitored throughout the construction programme and where possible cost savings achieved. Any cost savings which are achieved will be used to reduce the household incomes required to purchase the properties.

7. DELIVERY MECHANISM

- 7.1. Recent legal advice from Eversheds LLP has confirmed that the Council is able to undertake development activity directly. Pricewaterhouse Coopers have also provided taxation advice looking at stamp duty land tax (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. It is therefore proposed that the Bloemfontein Road scheme will be undertaken directly by the Council, using the Council's Term Voids Contractor, WDP.
- 7.2. The project progress will be monitored by the Housing Development Programme Board (chaired by the Executive Director of Housing & Regeneration). Quarterly progress reports will be provided to H&F Business Board and to Members as part of the housing development programme governance structure and reporting process, details of which are presented separately in the Business Plan.
- 7.3. The project will be managed by a dedicated Development Officer supported by professional advisors (Baily Garner and Halcrow).

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- deliver units which are affordable to households with a modest household income (average income of £43.3k; capped at £60k, or £77.2k if 3 bedrooms or more)
 - achieve surplus on cost of 20 per cent (excluding retained equity)
 - deliver dwellings which meet the required bedroom mix of the Council's HomeBuy register

8. CONSULTATION

- 8.1. Formal planning consultation was undertaken with residents of the block and wider area. A change of use planning application was approved on 8th May 2013. Residents have been notified of the Council decision.

9. EQUALITY IMPLICATIONS

- 9.1. As per the Equality Act 2010, the Council must consider its obligations with regard to the Public Sector Equality Duty (PSED). It must carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected in a relevant and proportionate way. The duty came into effect on 6th April 2011.
- 9.2. An Equality Impact Analysis (EqIA) has been undertaken for the Bloemfontein Road scheme, see appendix 5 for details. It shows that the conversion of the vacant premises in to new affordable accommodation when reviewed against the profile of those on the Home Buy register to be of medium relevance to, and have a positive impact on, the following groups:
- Age (especially younger/older age groups and families with children)
 - Disabled people (and the Council recognises that some disabled people may require more assistance to benefit)
 - Race groups (BME in particular)
 - Women

10. LEGAL IMPLICATIONS

- 10.1. There are no procurement implications as the Council is proposing to carry out the works referred to in this report using its Term Voids Contract.
- 10.2. Comments completed by: (Catherine Irvine, Senior Solicitor (Contracts) telephone 020 8753 2774)

11. FINANCIAL AND RESOURCES IMPLICATIONS

- 11.1. Approval is requested to commit £192k for investment in Bloemfontein Road to develop two new affordable properties. Funding for this will be provided from the decent neighbourhoods fund.
- 11.2. A fixed price contract will be entered into with WDP to complete the construction works at a value of £131k (c£1,000/m²). This will reduce the risk of construction cost overruns and is consistent with the Becklow

Gardens scheme. The Housing Development Programme Board will review and monitor the viability of the Bloemfontein Road scheme.

- 11.3. The development appraisal includes a project contingency of £17k (approximately 10% on cost). This project contingency will be closely monitored throughout the development with any movements requiring prior approval from the Housing Development Programme Board.
- 11.4. Section 6.5 refers to the financial sensitivity analysis which has been carried out to provide the Council with assurance of the proposal's viability within a range of sensitivities. For example, increasing the Bloemfontein Road scheme costs by 10% reduces the development appraisal surplus to £19k (from £39k).
- 11.5. It should be noted that this scheme does not require Mayor's Housing Covenant grant. The £27k per unit, which the Council will receive (subject to contracts) will be retained within the Council's internal grant pool and used on future affordable housing schemes. It should be noted that there are payback conditions associated with the grant and therefore a process will be established to ensure that the Council's liability to repay is closely monitored and managed.
- 11.6. This scheme is included within the Business Plan which was approved by Cabinet on 24 June 2013. Since the original estimates the schedule of works has been revised to include an acoustic ceiling and additional external works required to meet the planning conditions. WDP costs are circa £30k above those reported in the Business Plan and household incomes of the perspective buyers have been raised from £25k (as per the Business Plan) to £30k to ensure the scheme will achieve a 20 per cent surplus on cost.
- 11.7. Comments completed by: Dan Jones, Head of Housing Financial Investment and Strategy x6689

12. RISK MANAGEMENT

- 12.1. See appendix 6 for a risk log for the scheme.
- 12.2. Management of risks 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.
- 12.3. Comments completed by: Eric Holroyd, Development Officer x2734

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 13.1. There are no procurement related issues at this time as the Council intends to use its Term Void Contract, which was let in 2004 and will expire in November 2013.

13.2. Comments completed by: Alan Parry, Procurement Consultant
(Contracts) x2581

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

Appendix 1 – Bloemfontein Road OS Map

Appendix 2 – Bloemfontein Road Existing & Proposed Floor Plans

Appendix 3 – Bloemfontein Road Development Appraisal & Cost Plan

Appendix 4 – Bloemfontein Road Programme

Appendix 5 – Bloemfontein Road Equalities Impact Assessment

Appendix 6 – Bloemfontein Road Risk Register