

CABINET

21 MAY 2015

AUTHORISATION FOR FINAL APPROVAL TO CONSTRUCT HOUSING SCHEME:
SPRINGVALE, SWANMORE

REPORT OF THE HEAD OF NEW HOMES DELIVERY

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RECENT REFERENCES:

CAB2631(HSG) – Housing Revenue Account Rent Setting 2015/16 and Budget / Business Plan Options, 26 November 2014.

EXECUTIVE SUMMARY:

This report seeks final approval to enter into a build contract to construct 2 new Council houses at Springvale, Swanmore. In accordance with Financial Procedure Rule 6.4, approval is sought for the capital expenditure involved.

This is a key decision which was not included within the Forward Plan for May. However, there is a need for an urgent decision because the Council has been awarded additional borrowing capacity by the DCLG to bring this scheme forward with a deadline for the properties to be completed of 31 March 2016. Therefore, it would not be possible to wait until Cabinet (Housing) Committee on 30 June 2015 for a decision. Under the Council Constitution Access to Information Procedure Rules (Rule 15.1 – General Exception), the Chairman of The Overview and Scrutiny Committee has been informed.

RECOMMENDATIONS:

- 1 That the Assistant Director (Chief Housing Officer) be authorised to enter into a design and build contract with Mapledean Developments to construct 2 new council houses at Springvale, Swanmore for the sum of £328,800.
- 2 That in accordance with Financial Procedure Rule 6.4, capital expenditure of up to £353,575 be approved.

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DETAIL:

1 Introduction

- 1.1 The site was formerly part of the garden area of no.2 Springvale, Swanmore, a Council house on a large corner plot. The site was originally identified in the development programme in 2012. However, development was only progressed when the tenancy of the existing house was terminated in 2014.
- 1.2 The development was originally scheduled to be completed during 2016/17. However, the Council was granted additional borrowing permission of £160,000 via a Local Growth Fund bid it made in August 2014. This has allowed the scheme to be brought forward, for completion during 2015/16.

2 Proposal

- 2.1 The development proposal is for 2 affordable homes, consisting of 2 x three bed houses,
- 2.2 A planning application was submitted in September 2014 and consent was granted in January 2015 with no significant amendments to the submitted scheme.

3 Evaluation of Tenders

- 3.1 The Council has employed the services of Runds to act as Employer's Agent for the scheme. They have prepared the Contract documents and managed the Tender process on behalf of the Council. Four prospective Contractors from the Council's select list of small build site companies were invited to submit fixed price bids for the project. The Contractors were: Austin Builders, Waltham Contractors, Mapledean and Acorn Developments.
- 3.2 The Tenders were returned on 12 March 2015. Following an evaluation of the Tenders by Runds, the most competitive price was provided by Mapledean Developments for the sum of £328,800. Runds are satisfied that that the tender process has produced competitive prices: the Feasibility Cost Plan Estimate produced in September 2014 estimated a build cost of £342,128.

- 3.3 On the basis that Mapledean Developments have produced the lowest tender price, authorisation is sought for the Assistant Director (Chief Housing Officer) to enter into a Design and Build contract to construct 2 properties at the Springvale, Swanmore site for the sum of £328,800.
- 3.4 If the recommendation set out above is agreed, final contracts will be prepared and entered into in June 2015, with the site handed over to the contractor during July. The build contract period is estimated at 28 weeks with a 6 week lead-in period.

4 TACT Comment

- 4.1 TACT is pleased to note progress with this scheme and fully support the proposals in the report. TACT also considers that the need for new affordable housing outweighs any objections to the proposed scheme. TACT would like the opportunity to add further comments verbally at the meeting.

OTHER CONSIDERATIONS:

5 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 5.1 Developing new homes is a key priority for the Council as it seeks to promote active communities: 'to support local people in accessing high quality and affordable housing which meet their needs'. It also facilitates the District's economic prosperity.

6 RESOURCE IMPLICATIONS:

- 6.1 When the revised development programme was approved by Cabinet (Housing) Committee on 26 November 2014, the indicative cost for the scheme was £372,000.
- 6.2 The latest estimated scheme cost, including £24,775 fees and build costs is £353,575. This gives a saving of £18,425 over the current budget provision, all of which falls in 2015/16. The financial viability of the scheme has been reassessed using the latest cost information and the details are provided in Appendix 1. This includes an indication of expected rent levels. In summary, with rents at 78% of market rents, the scheme meets all the viability criteria. The value of the land, not included in the above figure but included in the financial viability appraisal is £60,000.
- 6.3 In order for tenders to be accepted and the scheme to proceed, it is necessary for the expenditure to be approved in accordance with Financial Procedure Rule 6.4.

7 RISK MANAGEMENT ISSUES

- 7.1 The Council wants to develop and deliver an ambitious programme for the building of new council houses. Building homes involves significant risks. This is why market developers and investors demand high

returns in reward for that risk. Risks lie in delays arising from inadequate resourcing, abnormal costs, unnecessarily bureaucratic procedures, local opposition, planning objections and a weakening of political commitment. It is important that risk is carefully managed.

- 7.2 At a high level, risk management is carried out by ensuring that proposals have a strategic fit with the Housing Development Strategy, particularly with respect to viability. The Council's corporate project and risk management processes will be used to mitigate detailed risk and ensure that projects are progressed in a logical sequence to ensure that the Council is not overexposed to risk. It is important to note that it is rare for risk to be totally removed.

APPENDICES:

Appendix 1 – Financial Viability Summary

Financial Viability Summary – Spring Vale, Swanmore

Heading	Analysis	Criteria
Units	2 x 3 bedroom houses	
Estimated scheme cost for viability assessment	£413,575	Includes £60,000 for land value
Market Value of dwellings	£500,000	
Total scheme cost as a % of market value	82.7%	< 100%
Net present value	£3,789	> £0
Loan repayment year	30	30 years or less
Rent as % of open market rent	78%	Max 80%, subject to not exceeding LHA
Rent per week based on 52 week year	3 Bed House - £162.00	