

# Somerset West & Taunton Council

Executive – 9<sup>th</sup> July 2019

## Laxton Road Redevelopment

This matter is the responsibility of Executive Councillor Fran Smith

Report Author: Shane Smith – Development Manager – Commercial Investment

### 1 Executive Summary / Purpose of the Report

- 1.1 This project proposes the redevelopment of a Somerset West & Taunton garage site containing 16 garages at Laxton Road Taunton, TA1 2XA. The scheme was presented to Council in July 2016 as part of the HRA Business Plan Review. The report recommended increasing the Social Housing Development Fund (SHDF) budget in order to include further funding for this scheme.
- 1.2 The scheme has now come forward for delivery but it has been proposed to part fund the scheme with Right to Buy receipts, therefore a further technical approval is required from Council as set out in the full detail of this report.

### 2 Recommendations

- 2.1 Executive recommends that Full Council approves a supplementary budget as set out in confidential appendix 2 within the Housing Revenue Account Capital Programme to deliver the scheme, funded by Right to Buy receipts.

### 3 Risk Assessment

- 3.1 The below risks are a summary of the comprehensive risk register held as part of the wider governance for this project.

Description	Likelihood	Impact	Overall
<b>Risk:</b> A flawed procurement process results in an appointment which is not best value. <b>Mitigation:</b> Project Manager, EA & Procurement advisor design and progress the procurement process to achieve best value.	2	3	6
<b>Risk:</b> The chosen contractor is unable to complete the works for example, due to insolvency. <b>Mitigation:</b> Financial checks have been undertaken for the preferred contractor. SWT Finance have obtained a credit safe report which has returned a rating on 90 indicating a very low risk. The contractor will provide a parent company guarantee. The contractor will provide a 10% (of the contract value) performance bond.	3	4	12

<p><b>Risk:</b> The chosen contractor is unable to complete the works by the contractual completion date.</p> <p><b>Mitigation:</b> The contract entitles the Council to LADs should the contractor fail to complete works by the completion date. The PM &amp; EA will monitor progress against the programme throughout the duration of the works.</p>	3	3	9
<p><b>Risk:</b> Health &amp; Safety – The risk of injury or death to individuals (employees, other stakeholders &amp; members of the public).</p> <p><b>Mitigation:</b> Any and all contractors appointed as part of this project will provide satisfactory evidence of their competency. The PM will ensure that client duties are carried out in accordance with CDM regulations. The contractor/s will provide appropriate H&amp;S plans prior to start on site and this will be reviewed regularly. Site visits will be carried out by the project team and the Principal Contractor will hold appropriate levels of employers and public liability insurance.</p>	2	4	8
<p><b>Risk:</b> That unidentified issues could cause the cost of the redevelopment works to rise.</p> <p><b>Mitigation:</b> Thorough site investigations have been completed and reported on including ecology, ground investigation, engineer's technical constraints, asbestos and a report of title.</p>	3	3	9

### Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

#### **4 Background and Full details of the Report**

4.1 This project proposes the redevelopment of a Somerset West & Taunton garage site containing 16 garages at Laxton Road Taunton, TA1 2XA. A number of options have been considered and the current scheme of 8 x 1 bed flats in blocks of 3 storeys was chosen in order to;

- Maximise the number of achievable units.
- Avoid costly diversion of drainage.
- Comply with planning constraints in regard to overlooking neighbouring properties, access and parking arrangements.

4.2 On 7th July 2016 the scheme was presented to Council as part of the HRA Business Plan Review, as part of a range of pipeline schemes approved to progress to next stage. For the purposes of forward financial planning, the report recommended increasing the Social Housing Development Fund (SHDF) budget in order to include funding for this scheme.

4.3 The scheme has now come forward for delivery, but it is now proposed to part fund the scheme with Right to Buy receipts, therefore a further technical approval is required from Council for the Right to Buy proportion as set out below. As described above the other portion of expenditure from the Social Housing Development Fund was approved in July 2016, and there are currently funds available to cover this.

#### **Scheme Overview**

4.4 This redevelopment will provide 8 new and affordable 1 bed housing units ensuring that future residents of the scheme will benefit from new, high quality, energy efficient housing. Redeveloping this poor performing Council asset will also visually improve the local area.

4.5 The scheme provides the maximum number of units on the site, allowing for site constraints and the added benefit of the provision of one bed flats, which is high priority.

4.6 The scheme will enable use of Right to Buy receipts avoiding the potential for receipts to be returned to Central Government together with an onerous interest provision.

## Next Steps

Award Contract	17 <sup>th</sup> July 2019
Contractor Lead in	6 weeks – 30th August
Start on Site	September 2019
Contract Period	40 weeks
Practical Completion	July 2020

## 5 Links to Corporate Aims / Priorities

The report supports the Housing Revenue Account Business Plan objective of increasing our stock of affordable homes.

## 6 Finance / Resource Implications

- 6.1 This business case has assumed that the properties are fully occupied. As this is a 100% social housing scheme all of the rents are 'affordable rents' based on 80% of market value. The rental income is net of void/bad debt provision, maintenance and service costs.
- 6.2 The business case is also built on the basis that all of the capital costs are financed upfront without the need for capital borrowing, by using Right to Buy receipts and the Social Housing Development Fund (SHDF) resources.
- 6.3 From an investment business case perspective the scheme is relatively expensive. Due to the high capital redevelopment cost of returning affordable rents, the discounted cash flow analysis returned negative Internal Rates of Return (IRR) and negative Net Present Value (NPV) indicating that the financial returns generated by this project over the long term are lower than the implementation costs. However it is felt that the social value added and the more appropriate and beneficial use of a Council asset justifies delivering the scheme.
- 6.4 The sole purpose of this project is therefore to re-develop a dilapidated, SWT Council owned garage site, into social housing. The Executive should not consider it a scheme to generate commercial returns, and recognise that – as is often the case – the provision of social housing requires a degree of subsidy.
- 6.5 Key Indicators:

<i>Period of return</i>	<i>30 years</i>	<i>45 years</i>	<i>60 years</i>
NPV: based on discounted cash flow	-£430,115	-226,101	-£68,491
IRR: based on discounted cash flow	-3.33%	-1.14%	-0.26%
Payback Period: based on net cash flow from rental	30		

- 6.6 Perhaps more importantly in terms of affordability to the Housing Revenue Account, the annual budget implications are positive because the upfront cost is fully funded from existing cash resources. The initial revenue implications indicate a net income of over £33,300 in Year 1, increasing year on year due to assumed inflationary up-lifts each year. The business case also includes an allocation to Major Repairs Reserve from Year 11 onwards, reflecting the need to maintain the properties as they age. An extract of projected budget implications are summarised below:

Revenue Account:	Year 1 £	Year 2 £	Year 3 £	Year 4 £	Year 5 £	Year 10 £	Year 11 £
Rent Income	-38,293	-39,059	-39,840	-40,637	-41,449	-45,763	-46,679
Void/Bad Debt Provision	1,915	1,953	1,992	1,016	1,036	1,144	1,167
Maintenance	1,944	1,993	2,042	2,093	2,146	2,428	2,488
Major Repairs							10,497
Services	1,081	1,103	1,125	1,147	1,170	1,292	1,318
Net Cash Flow	-33,353	-34,010	-34,681	-36,380	-37,097	-40,899	-31,209

(Note: minus figures = income)

- 6.7 As the table shows, the development should be affordable and present a positive impact on the overall HRA budget. This does not take into account the loss of interest income on cash balances on the basis the HRA does not intend to hold RTB and SHDF reserves for the long term. This 'treasury' impact is considered negligible.

## **7 Legal Implications**

- 7.1 The proposed redevelopment needs to be in accordance with the planning permission.
- 7.2 The proposed works need to be in accordance with current building regulations.
- 7.3 RTB receipts to be spent in accordance with the one for one retention agreement with Central Government.

## **8 Environmental Impact Implications**

- 8.1 Whilst there are no negative environmental impacts, the properties will be built in line with NHBC standards. The units provide high quality, energy efficient housing.

## **9 Safeguarding and/or Community Safety Implications**

- 9.1 There are no safeguarding implications to note and community safety is a key feature of our risk mitigation.

## **10 Equality and Diversity Implications**

- 10.1 There are no equality & diversity implications to note specifically arising from this report.

## **11 Social Value Implications**

- 11.1 The procurement process will consider any social value implications that may arise.

## **12 Partnership Implications**

- 12.1 SWT will be contracting out the build of this project and all partnership implications will be considered during the procurement process.

## **13 Health and Wellbeing Implications**

- 13.1 Consideration has been given to the local community. This project not only re-develops a poor performing asset but in doing so improves the local community and provides the community with new, high quality, energy efficient housing. The provision of one bed flats is also a high priority. There are no negative health & wellbeing implications.

## 14 Asset Management Implications

14.1 Bringing a dilapidated garage site back into use as residential accommodation is considered a better use of HRA assets.

## 15 Consultation Implications

15.1 The Planning process included a statutory consultation exercise in addition the development team undertook consultation regarding the site in the early feasibility stage. Updates were also given to the Lane Estate Residents group, TSMB and Tenants Forum. Prior to start on site we will engage again with the community to keep them informed.

## 16 Scrutiny Comments / Recommendation(s)

16.1 Not applicable as this report was not taken to Scrutiny.

### Democratic Path:

- **Scrutiny / Corporate Governance or Audit Committees – No**
- **Executive – Yes**
- **Full Council – Yes**

### Reporting Frequency: Once only

### List of Appendices (delete if not applicable)

Appendix A	Location & Site Layout Plan
Appendix B	Confidential Appendix

### Contact Officers

Name	Shane Smith	Name	
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# Appendix A; Location and Site Layout Plan



shown dotted See tree survey dwg no. spp2030p01

Planting as Shown (Species to be agreed)

Species To Be Agreed

(Species To Be Agreed)

