



<b>SIGNED OFF BY</b>	Director of People
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<b>TO</b>	Executive
<b>DATE</b>	Thursday, 27 February 2020
<b>EXECUTIVE MEMBER</b>	Portfolio Holder for Housing and Benefits

<b>KEY DECISION REQUIRED</b>	Y
<b>WARDS AFFECTED</b>	Redhill West and Wray Common;

<b>SUBJECT</b>	Cromwell Road Development: confirmation of the updated capital budget forecast and entering into a build contract
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<b>RECOMMENDATIONS</b>
<p><b>That:</b></p> <p><b>(i) The updated capital budget forecast be accepted and approved.</b></p> <p><b>(ii) The Head of Housing be authorised in consultation with the:</b></p> <ul style="list-style-type: none"> <li>• <b>Head of Finance</b></li> <li>• <b>Head of Legal &amp; Governance</b></li> <li>• <b>Executive Member for Housing &amp; Benefits</b></li> <li>• <b>Executive Member for Finance; and</b></li> <li>• <b>Executive Member for Investment and Companies</b></li> </ul> <p><b>To enter into a contract to build with the recommended contractor.</b></p> <p><b>(iii) To appoint and enter into contracts (as required) with any remaining consultants or suppliers to allow the contract to progress to completion including unit sales.</b></p> <p><b>(iv) To amend the tenure mix at a later stage (as required) with up to a maximum of 100% of the scheme being retained by the Council with a condition that the scheme expenditure remains within the approved capital budget of £6,448,000 as detailed within the exempt report in Part 2 of the agenda.</b></p>

**(v) The Head of Housing be authorised in consultation with the:**

- **Head of Legal & Governance**
  - **Executive Member for Housing & Benefits**
  - **Executive Member for Finance; and**
  - **Executive Member for Investment and Companies**
- a) **To enter any Easements, Licences, Covenants or Wayleaves as required on the development.**
- b) **To Complete Party Wall agreements are required on the development.**
- c) **Authorise new leases granted or entered into by the Council on the development.**
- d) **Authorise the sale of new homes on the development.**

**REASONS FOR RECOMMENDATIONS**

The baseline financial forecast for the scheme, as presented to the Executive in April 2018 is no longer considered to be an accurate forecast of delivery costs. An exercise to re-baseline the project has been undertaken and a summary of the position is within the exempt report in Part 2 of the agenda.

Should the revised baseline be considered acceptable the recommended approvals are required to facilitate the delivering of this project.

Delivery of this project meets the Corporate priority of making the Borough a great place to work and live. It also supports the Executive's commitment to deliver housing that meets the needs of local people, as half of the dwellings on this site are proposed to be sold on a shared equity arrangement.

**EXECUTIVE SUMMARY**

- Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site, identified as needing investment and redevelopment.
- Approval was given by the Executive in April 2018 to proceed with the development. The financial forecasts presented within that appraisal have been reconsidered and a revised appraisal has been undertaken as certain assumptions that had been used are no longer considered supportable or current.
- The revised appraisal indicates that a lower level of surplus will be generated by the development. However, the intention to deliver 50% of the units for shared equity sale and 50% for market sale remains.
- Approval of the revised financial baseline position is sought, as well as approval to enter into a build contract with our recommended contractor to deliver the project. Approval of additional items are also required to ensure the smooth delivery of the project.

**Executive has authority to approve the above recommendations**

## STATUTORY POWERS

The Council has no statutory obligation to undertake this work but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provision of the Act.

## BACKGROUND

1. In April 2018 the Executive received a report seeking permission to proceed with a mixed tenure development for 32 flats with retail space at ground floor together with associated external works. The report provided information on the projected financial return to be expected from the sale of the new homes.
2. This report provides a revised financial baseline position and seeks approval to proceed to build contract based on the updated financial position.

## KEY INFORMATION

### Variation to original financial forecasts

1. The financial model which supported the decision to proceed with the scheme in April 2018 is no longer considered accurate. The appraisal provided within that report is now 18 months old and some factors have changed.
2. **Local housing market-** we have received indicative valuations from local Estate Agents who are advising that there has been a slight downturn in the market. Further advice has indicated that a gross margin allowing for a market downturn should be factored into our development appraisals, as assuming achieving 100% of sales values is a high-risk strategy. Details of this are included within the exempt report in Part 2 of this agenda.
3. **Updated build costs-** the build costs indicated within April 2018's committee paper are not in line with current advice provided by our consultants and have not proved to be accurate at tender stage.
4. **Unsupportable assumptions made-** the original appraisals were modelled based on assumptions that new homes would sell immediately, the rental unit would be let directly upon completion, and purchasers of shared equity units selling up triggering a release of capital back to the Council by year 15. Industry advice is that this cannot be relied upon, and that in reality this level of "staircasing" is not evident. A more prudent position is now adopted by many housing associations and local authorities who develop new homes, which is that schemes must work without relying on equity sales in the long-term. The appraisal within this report has been modelled using an industry-recognised development appraisal software, giving a greater degree of accuracy and considers factors such as timing of sales, interest payments, and timing of payments to the main works contractor.

### Revised Financial Position

5. The revised financial model shows that the scheme can be delivered within the current approved budget allocation (£10,107,300) in the Capital Programme 2020/21 to 2024/25.
6. The Executive report in April 2018 anticipated that a certain profit (on cost) would be achieved. It is our current assumption that a reduced profit of profit (on cost) is

achievable if today's assumed sales values are achieved. If we factor in the recommended gross margin (which reflects the risk of not achieving the inputted sales values) the profit margin drops further.

7. The tenure mix assumed remains as 50% market sale and 50% shared equity. The tenure mix proposed continues to deliver homes which are accessible to those on lower incomes. If it is considered that the profit margins are inadequate, then a revised tenure mix could be considered. Equally a revised tenure mix could be accommodated if the Council wishes to increase the number of affordable units delivered.
8. The Housing Delivery Strategy approved in December 2019 outlined the Council's ambitions to continue to provide a wider choice of tenure, type and size of housing, and to do this partly through our own housing delivery programme. This development, encompassing the range of tenures, helps to deliver on these ambitions.
9. It is recognised that whilst this scheme, in isolation, is likely to return a lower surplus than previously forecast, if consolidated with the Pitwood Park project, the combined projects do generate a profit (on-cost) whilst producing a total of 27 homes for discounted market sale out of the 57 proposed to be delivered (11 units for shared ownership at Pitwood Park and 16 units for shared equity at Cromwell Road).
10. Details of profit margins, total scheme costs, and a breakdown of the scheme appraisals are included within the exempt report in Part 2 of the agenda.

## OPTIONS

11. **Option 1 (Recommended Option)** - Proceed with the development based on the sale of 50% of the units on a shared equity basis and accept a lower profit level than reported to Executive in 2018, with the ability to amend the tenure mix at a later stage if considered beneficial.
12. **Option 2**- Take a purely commercial approach and sell more units for market sale to generate an increased profit margin. **This is not a recommended option** as the Council is in the position to use its property activities not only to generate profit but also to contribute to wider social and environmental objectives.
13. **Option 3**- Not proceed with the development. **This is not a recommended option** as the original building has been demolished and the site is sitting vacant. Not proceeding may lead to reputational damage with the public as well as the contractors who have tendered for this development opportunity.

## LEGAL IMPLICATIONS

14. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
15. The Council must show that commercial activity would benefit its area, and that the profit generated by such an activity is only ancillary to the general benefit to the

residents. However, if profit is the main driver, a special purpose company must be created for that purpose.

16. In this case, the primary objective of the scheme is to achieve regeneration of a prominent site within the Borough and meets a key objective within our current 5-year plan to "...invest in our town and village centres, so they continue to be places where people choose to live, work, do business and visit".

### **FINANCIAL IMPLICATIONS**

17. The budget implications of the updated scheme proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.
18. The scheme can be delivered within the current approved budget allocation (£10,107,300) in the Capital Programme 2020/21 to 2024/25.

### **EQUALITIES IMPLICATIONS**

19. There are no equalities implications arising from this proposal.

### **COMMUNICATION IMPLICATIONS**

20. Communications will respond to any media enquiries which may arise due to the delay to the proposed start-on-site.

### **RISK MANAGEMENT CONSIDERATIONS**

21. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
22. However, in this case, these risks have been considered. The construction cost has been produced further to an OJEU compliant tender, and subject to the successful tenderer entering into contract, will be fixed. Market sales costs have been revised and up-to-date sales values incorporated into the appraisal. An appraisal reflecting a drop in sales values is also included in the exempt report in Part 2 of this agenda.
23. It continues to be our intention to sell homes off-plan and to let the commercial unit ready to be fitted out and occupied upon completion, so that income can be secured at the earliest point.

### **OTHER IMPLICATIONS**

24. There are no further implications to be considered.

### **CONSULTATION**

25. The Portfolio Holder for Housing and Benefits has been consulted regarding these proposals.

### **POLICY FRAMEWORK**

26. Our Vision: This development helps us to meet our vision to make the borough a great place to live, work in, do business in and visit.

27. People Objectives: This development helps us to meet our objective to deliver homes that can be afforded by local people and provides a wider choice of tenure, type and size.
28. Place Objectives: This development helps us to meet our objective to invest in our town centres, and to use our own assets to provide new retail and new homes in our town centres.

## **BACKGROUND PAPERS**

1. Reigate & Banstead 2025