

Housing Overview and Scrutiny Committee – January 2023

Briefing Note: C01 Update

Purpose of the briefing note: To update Committee on the current position regarding redevelopment of C01 for affordable housing.

- 1.1 In March 2022 this Committee considered and commented on proposals to redevelop the part of the Civic estate known as C01 for affordable housing. Cabinet subsequently approved that the resulting development be owned, managed and let by the Council as affordable housing held within the Housing Revenue Account.
- 1.2 At that time an 82 unit development was being proposed and indicative costs for construction were £21.6 million. Committee noted that this would be a challenging site to develop and that the cost estimate at that time was based on early RIBA 1 designs that were still evolving.
- 1.3 Since March 2022 further design iterations were undertaken. The design has now been taken to RIBA Stage 2 and extensive engagement was held with the Council's Planning service including the Urban Design team, the planning case officer and a Design Review Panel. As a result of this consultation and engagement two options were developed for both a 60 unit and 80 unit development. Both options still have unresolved planning issues notably in connection with massing, height and parking provision.
- 1.4 Due to rising projected construction costs a rigorous value engineering exercise was carried out concluding in December 2022. This showed potential to achieve construction costs of £26.3m for the 80 unit project and £22.1m for the 60 unit option. To achieve these values would require further design changes.
- 1.5 Analysis of the financial viability of the project takes into account the cost of developing the units funded by the application of retained Right to Buy Receipts, PWLB borrowing and rental income. This shows that over a 30 year period the project would now be expected to run into deficit of £5.75m for the 80 unit project and £8.22m for the 60 unit project.
- 1.6 Key to the changes in financial viability have been rising project costs driven by an unprecedented period of build cost inflation which has significantly

affected the viability of projects across the sector. Rapidly rising material costs, increasing rising labour and energy costs are key components. Whilst these build cost increases could still have been accommodated within the project overall, changes to the PWLB interest rate from 2.8% to 5% have increased borrowing costs by over £11m. The impact of the rise in borrowing costs alone are sufficient to make the project unviable.

- 1.7 It has therefore been concluded that the project is not financially viable as an affordable housing development at present. Given national economic circumstances this is not expected to change in the foreseeable future. As a result, the project has been halted and the Council's Property team will now consider the most appropriate alternative use of the building given C01 is not an HRA asset. This will include consideration of the Council's financial position and the requirements of the current reviews.

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