9 March 2022	ITEM: 14 Decision: 110610
Cabinet	
CO1 - Redevelopment Update	
Wards and communities affected: All	**Key Decision:** Key
Report of: Councillor Luke Spillman, Cabinet Member for Housing	
Accountable Assistant Director: Keith Rumsey, Interim Assistant Director – Regeneration and Place Delivery	
Accountable Director: Sean Clark, Corporate Director of Resources & Place Delivery	
This report is Public	

Executive Summary

This purpose of this note is to give an update on work to date and seek agreement for approximately 82 new homes to be built at the site of CO1 to be owned and managed by the Council and held for affordable rent within the Housing Revenue Account (HRA).

1. Recommendations

That Cabinet:

1.1 Approve that the proposed redevelopment of CO1 be 100% funded through the HRA.

1.2 Approve that the scheme proposed is to be directly delivered by the Council and the properties to be owned, managed and let by the Council through the HRA.

1.3 Note that consultants are appointed to take the scheme through to planning submission subject to formal approvals and consultation.

2. Introduction and Background

2.1 The purpose of this report is to give an update on work to date and seek agreement for approximately 82 new homes to be built at the site of C01 to be owned and managed by the Council and held for affordable rent within the

Housing Revenue Account.

2.2 Cabinet have previously approved a report in December 2018 that recommended development of a residential scheme. A project of approximately 80 units is considered to be the most financially viable and has the best fit with planning requirements.

2.3 The existing use of CO1 as office space will be discontinued from early 2022.

2.4 The proposed outcome for this scheme needs to meet the place shaping requirements for the Council given its ambitions for Grays, current planning policy and provide an additional £2.8m financial benefit to the general fund in support of the Civic extension project.

2.5 The proposal to develop CO1 for residential accommodation is consistent with ambitions in the Grays Town Centre Framework with regard to bringing forward new development in this area with the increased residential population supporting the vitality of the shopping centre and local business. Design development through the planning process will recognise the relationship of this proposal to nearby Seabrook Rise estate to ensure the proposal is compatible in overall design, scale and massing.

3. Issues, Options and Analysis of Options

3.1 A range of options have been considered as below.

3.2 **Refurbished or new Offices.** The principle of the use of CO1 for redevelopment as residential accommodation was established at Cabinet in December 2018. It was noted at that time that the CO1 building had undergone very few modifications and upgrades to its plant and services. It noted that the buildings fabric and services were approaching 'end of life' and that even if refurbishment costs estimated at £5.75m were completed the building would still have an inefficient layout and have unviable floor space. It is considered that replacement of new office accommodation on the CO1 site is not required in the current market.

3.3 **Residential Accommodation Options.** The position on redeveloping CO1 for residential accommodation and the benefits of providing a new council facility in the Civic Office extension were further agreed at Cabinet in September 2019 with the benefits of developing CO1 for residential accommodation being a contributory factor in bringing the Civic Offices Project forward. Options for a market sale or private rented sector development are not financially viable as considered in the section on financial viability

3.4 **Design process of residential accommodation to date.**

3.5 An initial range of designs and cost plans were developed that considered options from refurbishing the existing accommodation as apartments through to a range of demolition and new build alternatives of differing levels of height and density. Following review the preferred option was for a new build project of c80 units.

3.6 A technical team was then appointed to take the project to RIBA stage 1 which was completed with 3 proposed design options varying in height and layout considered by officers.

3.7 The current stage of design has been developed following consultation with the Council’s urban design team, taking into account planning policy, to:

- limit design height having regard to the locality.
- minimise overshadowing and encourage dual aspect to the apartments,
- Consider ways to activate the street frontage, including ideas such as street facing duplex apartments or mixed use space
- Promote the use of roof garden areas to maximise private amenity space.
- Consider design of car parking provision

3.8 It is recognised that car parking provision is one of the key determinants of design. The Council’s planning design team advise that proposals should be based on a requirement for flats with high public transport accessibility of between 0 and 1 spaces per dwelling together with secure cycle storage and electric charging point provision. These requirements meet the proposed Parking Policy and Strategy and Parking Design Development being considered by Members. The design currently proposes 0.5 spaces per dwelling given the proximity of the Civic Offices to the rail station and bus station.

3.9 Appointments of the Tier 1 consultants of project management, cost consultancy, mechanical, electrical, plumbing & heating engineers and structural and civil engineers have been completed. In addition LSI architects have been appointed who conducted the existing work to RIBA stage 1 and also provided the architectural service for the new Civic Office extension. Their appointment ensures consistency in approach across the Civic estate.

3.10 Discussions will continue with the Councils design and planning service and work is underway to review issues and constraints arising.

3.11 Design and delivery risks and dependencies associated with this project include.

- As with all development adjacent to rail lines an asset protection agreement will be required with Network Rail to safeguard their assets. The proximity of passenger and goods trains to the building will also require careful consideration of the impact of vibration on foundation design, and acoustic impact on the residents. The impact of this to the project timeline and cost will be dependent on Network Rails assessment given the requirement to negotiate the asset protection agreement with them

- A detailed assessment of works is required to separate CO1 and CO2 (there is some interdependency) and associated servicing and power strategy. The current cost plan makes provision for the reinstatement of the wall separating CO1 and CO2 and a full assessment is yet to be made on the current UKPN substation/transformer.
- There are two tenants who have space within CO1. The NHS and the Community Rehabilitation Company (CRC). The NHS have agreed a new lease for space in C02 and are expected to complete that and move in early 2022. The CRC are now operating on a tenancy at will and are very unlikely to remain within the Civic Offices. The Councils Property team are assisting in relocation.
- The land currently remains within the general fund and would need to be appropriated to the HRA with the accompanying debt transfer if that delivery route is agreed.
- The new development will meet all existing building control and planning requirements in relation to sustainability standards. To exceed these standards, such as zero carbon development, would increase cost.

Financial Viability

3.12 The key financial objectives of this project are to deliver a financially viable scheme and provide the planned £2.8m financial contribution to the general fund to support the financing of the new Civic Offices building. The projected construction cost is shown in the table below is based on a proposal of 56 one bedroom apartments and 26 two bedroom apartments.

3.13 Although the design and cost plan are still at an early stage in its development there are factors that contribute towards costs higher than would be expected for a greenfield site, including:

- The site is technically challenging being adjacent to a rail line and a road bridge – both of which bring cost in relation to sound transmission and air quality and protection of existing assets.

- It is tightly constrained – so that public amenity space and may need to be on a podium deck.

- The site location makes demolition complex and costly

- The current stage of design assumes some under croft parking and also includes a full sprinkler system for fire safety reasons

- The approach to design is aspirational given the proximity to the Civic Offices. This includes activation of the street frontage and to foster a sense of place.

- The current construction cost estimate is based on a RIBA 1 design and will evolve over time until the final design is fixed. Cost and inflation estimates have responded to construction market nervousness.

- A provisional requirement of £1.7m ‘client side’ cost has also been estimated in addition in order to take the project through to planning approval, procurement of a main contractor and to manage the development process.

Current Construction Cost Estimate	£m
Land Costs	£ 2.8
Build Contract Costs including Inflation projection and contingency	£ 21.6
Total	£ 24.4

3.14 Financial modelling for the project was initially considered on a mix of sale, private rented and 35% affordable housing to be delivered through Thurrock Regeneration Ltd (TRL). Essentially on a build and sell basis the construction cost per unit is significantly higher than the associated market sales value and hence there is no viable sales scheme. The construction costs which drive the interest costs relating to the scheme mean that a rental period will not bridge the funding gap as the rents will not cover the borrowing costs.

Market Sales Option

3.15 Under the TRL model with a s.106 planning agreement requiring a policy compliant provision of affordable housing, the sales receipt value would decreases by circa15% in comparison to a scheme with all units sold at the open market rate. For comparative purposes the modelling for a TRL led development also provides a proxy to a private development option. The costs profile remains relevant but the expectation is this would attract a higher targeted profit margin for the developer which would not be achievable.

3.16 A private developer would typically require a developer’s profit margin of 20% for the open market sales element of a residential development and 6% as a constructors profit on the affordable housing element required under a S106 planning agreement.

3.17 TRL’s profit margin is targeted at 8% and consequently it can be seen that if the market sales option for TRL fails to achieve financial viability then a private developer’s profit margin in excess of TRLs would only make viability worse. The conclusion is that a private sales option is not viable.

Private Rented Option under TRL

3.18 A market rented option would also not be viable based on assumed rental income. This is because the cost of construction is the driver for the associated interest costs.

3.19 As set out in the table below, a rental scheme on this basis would not be financial viable for TRL. Using an estimated income figure, based on 100% market rent, the project would not generate sufficient revenues to be able to service the cost of the borrowing.

3.20 Applying the same profit considerations as market sale to a private sector developer would lead to the same outcome that the project would not be viable as a private rented project with an affordable housing element.

Private Sector Rent delivery option under TRL

Market Rents	
1 Bed	(588,000)
2 Bed	(296,400)
Rental Income	**(884,400)**
Annual Interest	**1,308,602**
Deficit on Rental Income	**424,202**

3.21 In light of the assessment above and in recognition of greater funding flexibility within the HRA further consideration has been given to development within the HRA. This uses a different costing model, and considers the project cash flow implications over a 30 year period to assess financial viability.

3.22 The other key points where an HRA scheme differs from a private sector / TRL option are as follows:

- There is no requirement in the HRA to make a minimum revenue contribution, as the HRA has a legislative obligation to maintain dwellings though its capital programme, and must make revenue contributions to capital in order to meet the depreciation costs of its stock
- The HRA can borrow funds using the PWLB, currently estimated using a long term borrowing rate of 2.2%
- The HRA can contribute up to 40% of the development cost from retained right to buy receipts

3.23 On the basis of the considerations above, the financial modelling for an HRA scheme has a positive long term cash flow project. This is detailed below:

HRA long term cash flow projections

Expenditure	£m
Land Costs	£ 2.8
Build Contract Costs including Inflation projection and contingency	£21.6
Project development costs	£ 1.7
Total	£26.1
Funding	
Retained Right to Buy Receipts	£10.5
HRA borrowing	£15.6
Total	£26.1
HRA Borrowing supported by:	
Net rental income	£20.4
Less Maintenance and Management costs	£ 6.0
Pre-Financing Income	£14.4
HRA interest costs against borrowing	£10.7
Net HRA Surplus	£ 3.7

3.24 The table above is based on a January 2020 cost plan for RIBA stage 1 development costs, with an inflationary uplift provided to take into account the estimated commencement date of the project. Whilst this 30 year HRA model produces a surplus it should be noted that this is a moderate amount 92,000 per annum.

3.25 The HRA income assumptions are using a rent level of 70% Local Housing Allowance + £1000 pa which is within the national definition of affordable housing and is consistent with other Thurrock Council HRA new build financial assumptions. This ensures that the rent level will be lower than the 80% of market rent level, which is the celling for a scheme to be classified as affordable housing.

3.26 The level of RTB receipts which is applied to the scheme is flexible. This has been allocated at 40% contribution. At this stage, this has been used to illustrate that a positive long term cash flow can be achieved.

3.27 In lieu of RTB receipts, it would also be possible to apply for Homes England fund, but this cannot be used in addition. The estimate for Homes England funding could be around £50,000 per unit, which would be generate £4.1m. However, this would not be sufficient to reduce the prudential borrowing requirement to a level where the scheme would be affordable.

3.28 Key financial risks using this approach include:

- Risk of increasing borrowing rates from the Public Works Loan Board
- Risk of changes that reduce Local Housing Allowances thereby reducing income
- Risk of reintroduction of a national cap of affordable housing rental inflation
- Impact of Right to Buy (RTB) sales subject to the cost floor rules limiting RTB discount entitlement during the first 15 years after construction
- Accelerating building construction industry inflation
- The current cost plan excluding client side costs shows high individual construction costs of an average of circa £298,000 per unit. This will be continually reviewed as the design progresses and contingency or provisional sums are replaced by more accurate pricing.

Programme and Next Steps

3.29 The table below shows the current indicative programme.

	Start	End
RIBA 2 Design	November 21	May 2022
Planning Application	June 2022	August 2022
RIBA 3 Design	September 2022	December 2022
Main Contractor Procurement	December 2022	August 2023
Construction	September 2023	September 2025

4. Reasons for Recommendation

4.1 This paper proposes CO1 is redeveloped as a 100% HRA project delivered by the Council because it is the most financially viable option and resources can be made available through a combination of HRA borrowing and retained Right to Buy Receipts.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 Housing Overview and Scrutiny Committee will receive a similar paper in the March committee cycle having been deferred from the January meeting.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The development of housing aligns closely with the Council's Vision and Priorities adopted in 2018. In particular it resonates with the "Place" theme which focuses on houses, places and environments in which residents can take pride.

7. Implications

7.1 **Financial**

Implications verified by: **Mike Jones**

Strategic Lead – Corporate Finance

The financial implications are contained within the body of the report. The financing of this scheme is affordable within the HRA 30 year business plan and generates a small surplus for reinvestment.

7.2 **Legal**

Implications verified by: **Courage Emovon**

Principal Lawyer / Contracts Team Manager

This is an update report and the project proposal will be developed as part of the Housing development programme of the Council. The tender proposals for this project must comply with the Council's Contract Procedure rules and the Public Contracts Regulations 2015 and Legal services will be on hand to advice on any implications arising from the project proposal

7.3 **Diversity and Equality**

Implications verified by: **Roxanne Scanlon**

Community Engagement and Project Monitoring Officer

Development of this site will have a positive impact on the locality by increasing the amount of affordable housing in the locality. Contractors will be required to follow Council policies in relation to diversity and equality and, in particular, contractors bidding for work will be required to follow the Council's Equality Codes of Practice on Procurement.

Contractors and developer partners will be required to have relevant policies on equal opportunities, be able to demonstrate commitment to equality and diversity and to supporting local labour initiatives that achieve additional social value.

7.4 **Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

None

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

Grays South Regeneration: Civic Offices Update, 12 December 2018
Grays Town Centre Regeneration: Civic Offices Project Statement, September 2019

9. Appendices to the report

None

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