

CABINET

Chatsworth Gardens Housing Exemplar Report of Corporate Director (Regeneration)

PURPOSE OF REPORT

The report provides members with a recommended contingency proposal for the Chatsworth Gardens Housing Exemplar Project, and requests authority for officers to further develop and submit a detailed contingency proposal to the Homes and Communities Agency (HCA) under the terms of the original funding agreement.

Key Decision

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Non-Key Decision

Referral from Cabinet
Member

Date Included in Forward Plan

Updated 18th August 2010

The report and Appendices 1 (a) and 1 (b) are public. However, Appendices 2, 3 and 4 and the ARUP Final Report are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act, 1972.

RECOMMENDATIONS OF COUNCILLOR KERR

- 1) Officers undertake further detailed development and submit to the HCA a Chatsworth Gardens contingency proposal consisting of a 2 block phased approach using a mixed public/private model (Main Option 6) within a framework defined by ARUP Design Option 12.
- 2) Officers request a HCA funding commitment sufficient to deliver Phase 1 at lowest potential risk to the council and discuss with HCA any additional funding commitment which could be brought to the project in order to progress Phase 2.
- 3) Subject to project funding approval the viability of proceeding with Phase 2 is made subject to regular review with respect to current and future funding opportunities.
- 4) Acceptance of any HCA funding offer and authority to proceed with the scheme is subject to a further Cabinet report.

1.0 Introduction






- 1.1 Officers have been working with the Homes and Communities Agency (HCA) to agree a way forward for the proposed Chatsworth Gardens Housing Exemplar scheme following the withdrawal of the developer partner Places for People (PfP). The overall scheme objectives are contained in the “Relationship to Policy Framework” section at the end of this report. The background is detailed in the Cabinet report of January 2010.
- 1.2 Members will recall that due to developer withdrawal the council was unable to progress the agreed scheme, triggering default clauses of the original funding agreement. To meet the terms of the contract the council was required to present an alternative contingency plan for the site. Cabinet resolved that officers develop and appraise a proposal providing members with a detailed cost / risk appraisal of a selected refurbishment scheme (minute ref: 112). Cabinet also agreed to provide funding of £60k to assist in this work which was endorsed by full council in February (minute ref: 87).
- 1.3 A detailed brief for an appraisal of options, taking into account scheme objectives and constraints, was issued to the HCA’s panel of consultants for multi-disciplinary studies. The brief required any proposed development achieve exemplary standards, particularly against environmental performance criteria. Members should be aware at the outset of the substantial cost implications of achieving these standards over and above standard new build and refurbishment costs. Ove ARUP Ltd was appointed in May and completed their work in August.
- 1.4 ARUP’s study looked at a series of overall site “Design Options”. However, these site design approaches have particular cost and delivery implications. They must therefore also be looked at from the perspective the council’s risk appetite and the funding environment specific to this scheme.
- 1.5 This report is therefore in two sections:
 - A summary of the ARUP site Design Options and the reasoning behind the consultant’s recommended overall approach to the site (Section 2.0);
 - A discussion of costs, delivery and public funding matters which are needed to develop the actual “Main Options” available to the council in delivery (Section 3.0).
- 1.6 It is important to understand key terms used in the report. The Chatsworth Gardens site consists of 2 property blocks dissected on a north-south axis by Chatsworth Road:
 - **West Block** (or Westminster block): 4 terraces on Albert Road, Westminster Road, Regent Road and Chatsworth Road
 - **East Block** (or Balmoral block): 4 terraces on Albert Road, Chatsworth Road, Regent Road and Balmoral Road.

2.0 ARUP Site Design Options

- 2.1 The final ARUP report is a detailed technical document which contains exempt information, but can be made available to cabinet members on request. The balance between new build and refurbishment across the site was a key issue, but 100%.new build was ruled out at the start due to the failure of this approach in the PfP scheme.

- 2.2 From a long-list the study team focussed on 12 realistic design approaches. Each option was evaluated/scored against quantitative and qualitative benchmarks; effectively creating an ‘all opportunity and risk’ analysis. The criteria are summarised in Appendix 1a. Weightings were applied where criteria had particular importance (for example to delivery risk) to give an overall score.
- 2.3 While differing individually in details and form the individual options can be grouped for ease of understanding into approaches with broadly similar characteristics and final scores. Officers have distilled the options into 5 groups: A, B, C, D and E. The approaches and overall risk assessment are summarised below (Table 1) and detailed in Appendix 1a. Plans of all the options are set out in Appendix 1b. In the scoring system a high score means lowest overall risk and vice versa.

Table 1

Approach Group	Description	Scores	Overall score “traffic light”
A	Disposal only: Dispose of all acquired properties No physical intervention	87	 Red
B	Base model: A “site wide” approach with 2 blocks completely refurbished.	122 to 127	 Amber
C	Non-preferred “site wide” approaches Essentially the Base Model with introduction of what are considered (after analysis) to be sub-optimal new build and design elements.	126 to 141	 Amber
D	Preferred “site wide” approaches. The Base Model with introduction of what are considered (after analysis) to be optimal new-build and design elements.	146 to 149	 Green
E	Single block variants of approaches B, C and D. Essentially utilising the disposal of all properties in the East block to enable a single block scheme to progress for the West block. Note: In all scenarios the West Block is retained and the East Block value realised due to more extensive current public ownership of the former and the higher quality and better prospects for sale on the latter block.	100 to 112	 Red

Design Option Summary

- 2.4 Approach A is not preferred due to the difficulties in managing retreat from the area. It is however still a valid way forward when considered in the context of the matters discussed in Section 3.0.

2.5 Group E Single Block approaches score poorly due to:

- The houses in the unimproved block would take some years to sell because of the restrictive covenants (to prevent their reversion to low grade multiple-occupation) being applied prior to sale
- As a result, sale receipts would only partially support the remaining acquisitions needed
- The unimproved block would reduce values and sales rates for the block to be improved
- The overall regeneration effect on the wider area will be weakened by halving the scale of intervention

2.6 Groups B, C and D are on a higher scoring suite of interventions across 2 blocks. However, refurbishment of the whole site is regarded as placing too much risk on a developer (this becomes more important when considering the implications outlined in Section 3.0). Group D approaches, specifically Option 11 and Option 12, emerge as preferred because they provide a good balance between new build and refurbishment. Option 12 in particular provides more variety of house types and eliminates the technically challenging and expensive refurbishment of the four storey Regent Road properties. The arguments for preferring an overall site design informed by Option 12 can be summarised as:

Table 2

Housing Mix / Marketability Risk	The proposal includes smaller 2 and 3 bed new-build units in addition to the refurbished and remodelled large 3 and 4 bed units. The ARUP study recommends that the greater the variety of accommodation layouts that can be achieved the better. Introducing smaller new build starter homes within the development is considered to be desirable as the recession has largely halted the construction of this popular type of accommodation.
High Quality Public Realm	The Chatsworth Road shared surface gives an attractive pedestrian and cycle priority area including bay parking softened by integrated tree and shrub planting.
Varied Parking Solutions	Parking is provided within the Chatsworth Road shared surface, in parallel bay parking on Westminster Road, on front in-curtilage areas on Balmoral Road, in rear in-curtilage spaces and in small secure gated rear courts. The variety of parking provision ensures that parking does not dominate the streetscape.
Large Rear Gardens	The layout and varied parking approach ensures that the preferred option provides the largest rear gardens of all the options, maximising the private amenity value of the units and adding to their sales appeal.
Security and Passive Surveillance	The layout ensures that rears are only accessed from secure gated rear parking courts with only one entrance in and out. Habitable rooms to the front and side of gable units ensure good levels of passive surveillance.
Environmental Standards	The addition of new-build units on Chatsworth Road allows for more efficient units with higher attainable Code for Sustainable Homes scores of up to 4*. The retained properties will seek to achieve Code level 3*.

2.7 Members must also however appreciate that the way forward for the project cannot only be informed by the Design Options. It must be informed by cost, funding and implementation factors.


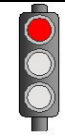
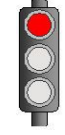
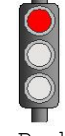
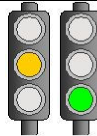
3.0 Cost, Funding and Implementation Issues

- 3.1 Financial appraisal of the Design Options were part of the overall scoring assessment and show the notional element of public subsidy required to complete a particular development option. It is useful for members to understand the basic development appraisal calculation/structure and this is outlined in Appendix 2.
- 3.2 Such appraisals are only as useful as the accuracy of the underlying revenue and cost variables used. The consultants employed the latest available cost benchmarks and undertook a detailed market assessment informed by the views of local agents. The variables and assumptions were also reviewed by qualified surveyors in the Regeneration & Policy team who support the competency of the underlying data. A summary of the assumptions is provided in Appendix 3.
- 3.3 Officers adjusted the study appraisal figures to take into account:
- The £1 million (at most recent independent valuation) tied up in “non-project properties” (defined in the 2005 Funding Agreement as properties outside the Chatsworth Gardens site). These will be sold to provide project funding.
 - The purchase of the existing 46 acquired units within the Chatsworth Gardens has already been funded (or ‘sunk’ in to the project) so £7,000,000 can be removed from the outlay side of the study figures.

Appendix 2 provides a summary of the financial appraisal of each Design Option taking into account the above adjustments.

- 3.4 At this stage it is useful to appreciate the HCA funding situation. HCA has been reluctant to give an indication of amount of funding potentially available preferring to defer to assess the council’s contingency plan on its merits. However, it is clearly important for officers and members to understand in broad terms the likely finance available. The submission of an unaffordable contingency scheme will incur wasted time and resource.
- 3.5 Under the original PfP proposal officers had secured ‘in-principle’ agreement for an additional £2.3m HCA funds. Coverage of all the council’s costs also depended on PfP providing a £1.29m capital receipt for the cleared site. There was therefore an order of additional funding into the scheme from HCA and PfP of around £3.6m. The scheme was regarded even at this stage as being very expensive in unit cost terms, mitigated only by ‘exemplary’ design features and relatively dense site development. Officers have also been guided by the fact that PfP’s alternative approaches, (following indications that they could not proceed with the original scheme), were discounted by stakeholders when the additional public funding requirement was shown to add significant millions of pounds to the ‘in-principle’ sum. The general malaise currently affecting all calls on public funding is widely understood and must also be taken into account.
- 3.6 Officers assess the likelihood of the ARUP study Design Options meeting the broad affordability parameters as follows:

Table 3

Approach Group	Description	Funding Requirement	Overall Affordability
A	Disposal only: (In the 'disposal' option the figure represents "net loss of public funds" rather than additional public funding requirement)	£3.7m	 Green
B	Base model:	£12.3m to £12.7m	 Red
C	Non-preferred "site wide" approach options	£10.3 to £11.9m	 Red
D	Preferred "site wide" approach options	£9.2m to £10.4m	 Red
E	Single block variants of approaches B, C and D.	£2.5 to £4.0m	 Amber/Green

Only Group E Single Block approaches are of an order of additional funding requirement likely to be available from the HCA. As previously noted any Single Block scheme brings particular disadvantages and risks – not least in damage to overall regeneration effect and impact on rate of sales. In addition, without assurance that sale of the properties in the undeveloped block under an anti-HMO covenant represents a positive 'unit outcome', it will still be challenging to achieve value for money in HCA appraisal terms. The difficulty presented by the current situation, then, is that only the most risky site options are actually affordable.

Improving Affordability Through Mixed Delivery

- 3.7 The council has an experienced internal staff resource within its Regeneration & Policy section that has delivered refurbished properties to a standard and design envisaged in the ARUP study. The team has undertaken refurbishment of former HMOs throughout the West End and a major tranche of work is currently ongoing around Bold Street. The refurbishment is being undertaken through a number of differing arrangements – some are effectively grant aid to the owner with overage conditions, others are being undertaken wholly at the council's risk. However, the council is undertaking project management on all schemes whether it holds the direct refurbishment risk on end sales or not. The council has been complimented by various public partners on its early achievements on Bold Street, and officers believe this success is down to the level of control it has over the project. The council has however been involved in a number of refurbishment projects with housing partners which have proved problematic in their outturn. Difficulties have arisen where,

through contractual arrangements, the council has taken far too much market risk without the ability to mitigate this through project management and other cost savings. Members should recognise that direct involvement in any housing project involves major cost and risk which is brought into sharper focus in a moribund housing market.

- 3.8 If the council did undertake some or all of the terrace refurbishment in a similar manner to the Bold Street project, significant savings on a traditional developer led scheme could be made. Likely key savings offered are:
- Removal of the requirement for developer's profit
 - Project management internalised (although any internal provision specific to the project would need to be covered)
 - Reduction in professional fees
 - Developer's finance costs associated with levered bank finance would reduce (there are still issues for public sector cashflow management and opportunity interest loss – refer to Financial Implications).
- 3.9 The potential to lower the building specification (which is recognised as 'exacting' in order to ensure definitive compliance with the environmental criteria) while still retaining 'exemplary' features also exists. However, the current specification has been agreed with HCA and is, by requirement of the study brief, 'exemplary'. Any change in specification would be subject to further negotiation.
- 3.10 There is unlikely to be a single preferred developer for the new build elements, or at least a developer that could commit to take the risk on all potential new build units. The council would probably need to enter into agreements with more than one developer for the new build site parcels. However, it is considered that risk would be reduced on the new build elements in these circumstances, and with the council leading on refurbishment elements/site provision, the developer's costs (for example, profit expectation) could also be assumed to reduce. The report will return to the issue of 'public sector risk' in a later section.
- 3.11 To illustrate a "Mixed Delivery" scenario, Appendix 4 shows a detailed analysis of Design Option 12 where it is assumed the council refurbishes 4 terraces, with 4 new build terraces built by the private sector - all costing assumptions are revised accordingly. Under this approach assumed savings would significantly reduce the total net public funding requirement to around £6.3m. Whilst these savings (as compared with a developer led Option 12) are significant, at up to £3m, they are fair considering the assumptions on the differences between a wholly private led scheme undertaken by a single developer and this mixed approach. But, even after considering all possible savings the conclusions drawn are:
- Preferred 2 block Design Options (Group B, C & D are still not within acceptable affordability in public funding terms.
 - Single Block schemes (Group E) are brought further within range of the potential additional funding available but still carry excessive overall delivery risk.

Phasing the Scheme

- 3.12 In the development of the proposal to date, the 2 block option variations (as in the original PfP scheme) assume it is best to resource and secure all property interests across the site 'up front'. The main reasons behind this approach are as follows:

- Certainty in site assembly in order to secure the interest of a single major developer across the site
- Ability to provide a definitive exit point for public sector
- Certainty in delivery of the comprehensive design approach, optimum regeneration impact and lowest risk.

Having enough resource to secure all property interests is attractive. Whichever option/delivery route is ultimately adopted, it will be necessary to bring blocks or terraces of properties under single ownership or control. Whilst every effort would be taken to agree acquisitions by agreement, it may as a last resort be necessary to use the Council's powers of compulsory purchase order (CPO) to enable the redevelopment to take place in the desired form (Members should note that it is too early at the moment to decide whether a CPO is required, but it is likely to feature in any future formal delivery proposal).

- 3.13 The ability and approval to use CPO powers is also underpinned by having certainty in delivery. Given there is unlikely to be enough funding available to acquire all site properties the feasibility of a more pragmatic approach, that is phasing the scheme, must be considered. .
- 3.14 To illustrate this approach Appendix 4 shows how costs of Design Option 12 can be split into 2 separate block phases (under similar constraints and assumptions of a mixed public/private approach discussed above). The West Block is regarded as Phase 1 with public sector investment brought to public realm/infrastructure works. Properties already purchased in the East Block are retained (rather than sold to fund a Single Block scheme), with the council giving a commitment to hold properties and review the implementation of Phase 2 on an ongoing basis. An even more incremental approach could be used in Phase 1 (for example moving across Phase 1 terrace by terrace). But for certainty of regeneration impact and clarity in exploring the issues, it is reasonable to start from a position where the council seeks to secure funds from the HCA for at least the whole of Phase 1.
- 3.15 The cost analysis shows a funding requirement of £2.6 million for Phase 1 which appears affordable in the terms discussed previously. The Phase 2 funding requirement of approximately £3.7 million becomes more open and is then reliant on:
- The HCA's willingness to fund the project to a greater extent than any funding it makes available to complete Phase 1.
 - Availability of future Housing Capital Programme (HCP) Funds and recycling of return on current HCP projects (see Financial Implications);
 - The skill and commitment of Council officers to drive those savings previously outlined through Phase 1 for recycling into Phase 2.
- 3.16 A final contingency position in any phased approach, if funding is not available to progress Phase 2, is the sale of the properties with anti-HMO covenants as under a standard Single Block option. Any additional public funds (spend over and above proceeding at the outset with a Single Block option) would be the holding costs of East Block acquired property up until a decision could be made on viability of Phase 2. On the scale of the project anticipated, these costs would not be significant but they could have an adverse impact on the council given the budget pressures. .
- 3.17 From the point of view of delivery risk the council should, as a matter of principle, undertake as few refurbishments as possible and only intervene at the point at which private developers would refuse to take on the refurbishment elements at the level of public subsidy available. However, according to the ARUP study figures, and using

the example of Option 12, the private sector will only become involved in 100% of the refurbishment elements if an additional funding requirement of £3.9m for Phase 1 is secured. The Phase 2 funding requirement would be £5.4m. This also assumes there are willing developers wishing to fully engage in the refurbishment side of the project – an area which the developer market is not strong at the current time

- 3.18 It will be seen then that in order to deliver Phase 1 in the example discussed a funding requirement of between £2.6m (assuming 'all public risk' on refurbishment) and £3.9m (assuming 'all private risk' on refurbishments) is required.

4.0 Moving from Design Options to Main Options

- 4.1 As noted in Section 3.0 It is not enough for members to only consider the Design Options of the scheme (as set out in section 2.0) on their own merits. The matters of potential public sector delivery risk and affordability have to be considered. The introduction of these issues leads to the consideration of a number of strategic Main Options illustrated in the table below. Appreciating and understanding the issues involved is challenging but members should have in mind that the Main Options simply integrate the public sector risk and affordability issues discussed in section 3.0 with the Design Option groups discussed in Section 2.0.

Main Option Summary Table

Option	Advantages	Disadvantages	Overall assessment
<p>1. Disposal only: Properties are placed back on the market under restrictive covenant. This is also the 'default' option where no scheme is considered acceptable to HCA / Council.</p>	<p>Advantages to those ascribed for the Type A approach outlined in Appendix 1. While showing the highest overall risk in purely financial terms it is the 'most affordable' and 'least risky' approach for the council.</p>	<p>Disadvantages are those ascribed for the Type A approach outlined in Appendix 1.</p>	<p>In general scoring terms this was the lowest across the range of variables assessed in the ARUP study (i.e. highest overall 'all risk'). According to the ARUP study the potential impact of adopting this approach has a high negative regeneration effect. There are political and community risks in the council and HCA being seen to 'pull out' of the project and the impact on West End. But in financial terms 'managing retreat' is the least risky option in the council's pure 'financial risk' terms.</p>
<p>2. Further develop and submit a preferred 2 Block approach using a private developer delivery model.</p>	<p>'All risk' advantages are those ascribed for the B, C & D Group approaches outlined in Appendix 1. Certainty in site assembly. Provides a relatively well defined 'exit point' for public sector. More certainty in delivery of a comprehensive design approach, optimum regeneration impact and lowest risk.</p>	<p>'All risk' disadvantages are those ascribed for the Group B, C & D approaches outlined in Appendix 1. No single developer would probably take on the project as a whole. Engagement of smaller private developers would still be challenging. Net additional public funding requirements are very high and are not likely to be supportable under HCA value for money criteria.</p>	<p>Site wide approaches score medium/high across the range of variables assessed in the ARUP study (i.e. lowest overall risk) Variants delivered solely by the private sector are probably unaffordable in terms of public funding available to support the financial 'gap' on the scheme.</p>
<p>3. Further develop and submit a preferred 2 Block approach using mixed public / private model.</p>	<p>As Option 2 Public sector involvement brings significant savings, drive and additional expertise and reduces risk for private sector involvement.</p>	<p>As Option 2 Public sector direct delivery involvement brings additional end sales risk to the public sector.</p>	<p>Site wide approaches score medium/high across the range of variables assessed in the ARUP study (i.e. lowest overall risk) Variants delivered on a public/private basis are probably unaffordable in terms of public funding to bridge the financial 'gap'</p>
<p>4. Further develop and submit a preferred Single Block approach using a private developer delivery model.</p>	<p>'All risk' advantages are those ascribed for the Group E approaches outlined in Appendix 1. Certainty in Single Block site assembly. Provides a definite 'exit point' for public sector. Certainty in delivery of some positive regeneration elements.</p>	<p>'All risk' disadvantages are those ascribed for the Group E approaches outlined in Appendix 1. Engagement of smaller private developers would still be challenging. Net additional public funding requirements are still high but are brought within reach of an order of additional costs likely to be supportable under HCA vfm criteria.</p>	<p>Single block variants are low/medium scoring across the range of variables assessed in the ARUP study (i.e. relatively high on 'all risk' analysis). Variants delivered on a sole private basis are within the realm of affordability in terms of public funding available to support the financial 'gap', but this option is tempered by relatively poor risk matrix score. Still challenging to achieve Value for Money in HCA appraisal terms.</p>

Option	Advantages	Disadvantages	Overall assessment
<p>5. Further develop and submit a preferred Single Block approach using a mixed public / private model</p>	<p>As Option 4 Public sector involvement brings significant savings, drive and additional expertise and reduces risk for private sector involvement.</p>	<p>As Option 4 although: Public sector direct delivery involvement brings additional end sales risk to the public sector. Net additional public funding requirements are still high but are further brought within reach of an order of additional costs likely to be supportable under HCA value for money criteria.</p>	<p>Single block variants are low/medium scoring across the range of variables assessed in the ARUP study. Variants delivered on a public/private basis are more within the realm of affordability in terms of public funding available to support the financial 'gap' than Option 4, but this option is tempered by relatively poor risk matrix score. Still challenging to achieve Value for Money in HCA appraisal terms.</p>
<p>6. Further develop and submit a preferred 2 Block approach using mixed public/private model requesting a funding commitment consistent with delivery of at least "Phase 1 West Block" with ongoing review of "Phase 2 – East Block". Preferred Main Option</p>	<p>'All risk' advantages are those ascribed for the Group B, C & D approaches outlined in Appendix 1. Outturn Group E approach advantages considered as 'contingent' for this option. Certainty in Phase 1 site assembly. Provides a relatively definitive 'exit point' for public sector if Phase 2 considered unviable. Certainty in delivery of some positive regeneration elements. Public sector involvement brings significant savings, drive and additional expertise and reduces risk for private sector involvement.</p>	<p>'All risk' disadvantages are those ascribed for the Group B, C & D approaches outlined in Appendix 1. Outturn Group E approach disadvantages are considered as 'contingent' for this option. Public sector direct delivery involvement brings additional end sales risk to the public sector. Engagement of smaller private developers would still be challenging. Net additional public funding requirements are still high for Phase 1 but are further brought within reach of an order of additional costs likely to be supportable under HCA value for money criteria as Option 5. Public Sector would be committed to a less definitive exit point in order to retain flexibility in implementation of Phase 2. Phase 2 site assembly risk is increased.</p>	<p>Commitment to Phase 1 should secure regeneration benefits similar to Single Block variants which are 'low/medium' scoring across the range of variables assessed in the ARUP study. Phase 1 is within the realm of affordability in terms of public funding available to support the financial 'gap' as Option 5 but given the relatively poor matrix score for Single Block Options an aspiration to achieve Phase 2 is desirable. A flexible approach to Phase 2 should secure improvement to a position which could score at least medium in terms of a matrix score and could potentially lead to a medium/high outcome. Development of at least part of Phase 2 is probably affordable in terms of the future public funding/resource availability to support the financial 'gap' of particular terraces/elements. Still challenging to achieve Value for Money in HCA appraisal terms</p>

5.0 Officer Preferred Option (and comments)

- 5.1 For the reasons outlined in the table and the report Main Option 6 is preferred, although the preferred approach is in reality a “least worst” regeneration option available to the council in the current circumstances.
- 5.2 If this public/private delivery and phased model is agreed, consideration can then return to the Design Option that provides the best framework for action with lowest risk attributes. The discussion in Section 2.0, when considered alongside the issues outlined in Section 3.0, points to Design Option 12 as the preferred design framework. Option 12 is also the cheapest of the ‘preferred group’ of options (Group D) and one which strikes the best market balance.
- 5.3 The additional funding requirement on the preferred option ranges from approximately £2.6 m (a minimum to complete Phase 1 with all refurbishment elements undertaken by the public sector) and £3.9 m (a likely requirement to bring the private sector into 100% of Phase 1 refurbishments). Available funding will probably mean a proportion of the refurbishments need to be undertaken by the public sector. The size of this role depends on the funding available and response of the private sector to the opportunity. If the project is only able to secure somewhere between £2.6m and £3.9m decisions will need to be made on the balance between:
- The funds used to bring the private sector into the project (essentially being spent on subsidising private risk).
 - The number of refurbishments which can reasonably be undertaken by the public sector.
 - The funding available to contribute towards undertaking Phase 2.
- 5.4 If refurbished elements do need to be undertaken by the council officers can mitigate delivery risk by:
- Progressing terrace refurbishments in ‘pilot’ sub-phases.
 - Further reviewing performance specifications to reduce costs without compromising ‘exemplar’ features.
 - Building on best practice undertaken on current terrace refurbishments.
 - Partnering with investors or Registered Social Landlords (RSL) to carry out refurbishments (there would have to be no HCA funding attributable to the RSL’s input as this would have to be counted in their overall public purse VFM calculations).
 - Investigate partnering with an RSL for introducing a proportion of private letting into the mix (respecting the council’s cashflow and revenue requirements on the capital scheme).
 - Exploring self-build opportunities for some individual/group property refurbishments within terraces.
 - Exploring grant aided individual/group property refurbishments within terraces with developers and existing owners of non-acquired property.
 - Work with a preferred mortgage provider to secure finance to build a fixed number of individual purchasers.
- 5.5 Officers will continue discussions with HCA prior to submission of the detailed proposal on the assumption that £3.9m is required as a minimum to deliver Phase 1 under the original expectation that no delivery risk falls to the council. However, funds available are not likely to meet this figure. The minimum funding to allow Phase 1 to go ahead is £2.6m with the council undertaking all refurbishments, and it is useful for members to appreciate the financial risks inherent in this level of

involvement. These are outlined under Financial Implications section, but it should be recognised that this situation is worst case in terms of any funding settlement which may be acceptable to members.

- 5.6 More likely is that the funding settlement will need to be considered flexibly in the terms outlined in paragraph 5.3 above. With future funding and receipts from the Housing Capital Programme, Phase 2 should also be able to progress at least in part. There may be opportunities to undertake Phase 2 elements at the same time as, or even in place of, parts of Phase 1. Disposal of any remaining acquired units and engagement with owners of properties not acquired would be positively managed to a best fit within the overall 'aspirational framework' of Option 12.
- 5.7 Officers have to develop the proposal in some detail for submission to the HCA. Under the terms of the funding contract HCA have to indicate by 6th October whether the contingency proposal is acceptable and what further appraisal is necessary to meet their approval requirements (refer to Legal Implications). There is no further time to furnish members with a detailed scheme proposal document. However, under the council's own project management protocol (LAMP) the contingency proposal is, in formal terms, 'in exception' to the project previously agreed via the council's internal project scrutiny panel (now CPROG). It is therefore appropriate for the final submission document to be reviewed and approved by CPROG, ensuring a further robust independent test of the proposal assumptions and soundness. A further level of scrutiny would also be made available on any offer of funding by the HCA whereby members reserve a decision to accept the offer subject to a further report on the final scheme shape and details of the anticipated role of the council in direct delivery.
- 5.8 Members should also be aware that the unit costs of the scheme are high and the additional public funding requirement will be considered in HCA appraisal alongside their 'sunk' resources. There is therefore no guarantee that the contingency proposal submitted will meet with HCA approval. The HCA could reject the council's proposal but are then obliged to prepare their own proposal for the council's consideration.

6.0 Conclusion

- 6.1 Given the complexity of the Chatsworth Gardens scheme no option analysis can be regarded as exact science. Multiple variables and considerations can impact in many ways. However, depending on the competency of the underlying assumptions, and within realistic terms of reference, a balanced view of the likely outcome of a particular option or direction can be formed.
- 6.2 From the ARUP study a selective refurbishment of target blocks with demolition to create sites for new, attractive and marketable private development is the preferred Design Option. However, it is clear that such a comprehensive scheme cannot proceed without substantial public sector subsidy. The high level of investment undertaken to date, the cost of acquiring remaining properties and the 'gap' between build costs and end values pushes a comprehensive 2 block scheme, delivered solely by the private sector, beyond a reasonable level of public subsidy supportable by HCA.
- 6.3 A solution involving the council in direct delivery in order to reduce the call on public funding, lower costs, lead the intervention and help mitigate private sector risk may be required. Depending on the available funding delivery risk may need to be borne by the council where previously it was expected to fall wholly on the private sector. Officers do have experience in similar successful housing refurbishment projects.

However, in terms of value and scale envisaged and its ability to reduce delivery risk the council should not seek to undertake refurbishments where the private sector could be involved. In addition, due to the current HCA and public funding situation a flexible phased approach must be considered. The viability and extent of the phased scheme and the level of involvement of the council in directly delivering refurbishment elements still depends on the level of public funds available. Existing acquired properties may still have to be sold with restrictive covenants to provide funding to invest in deliverable elements of a first or later phase.

6.4 Members are asked to consider officer's preferred Main Option 6 of developing the contingency proposal on the basis of a 2 block phased approach, using a mixed public/private delivery model. There is also a need to define the overall framework moving forward and Design Option 12 is preferred.

6.5 The estimated funding to deliver Phase 1 (West Block) wholly via private sector means (or in other words at lowest public sector delivery risk) will be discussed with the HCA and a funding request framed on this basis. The funding requirement is estimated at £3.9m. However, members should expect that the funding available is unlikely to meet the full requirement and the council may need to become more involved in direct delivery of refurbishment elements to progress the scheme as outlined in the report. A commitment should also be given to ongoing review of the viability of proceeding with Phase 2 (East Block) subject to the outturn of the current funding negotiations and future funding opportunities.

RELATIONSHIP TO POLICY FRAMEWORK

The Morecambe Action Plan recognised the housing issues within Poulton and West End areas as having negative impact on the perception and economic potential of the town and that radical interventions were necessary to remove HMO's and privately rented flats and create new modern housing options.

The Council's Housing Strategy 2004/08 prioritises neighbourhood level investment in Poulton and West End areas of Morecambe.

The Chatsworth Gardens Project is a key element of the West End Masterplan and was ranked as a high priority by Cabinet as part of review and refresh exercise carried out on the Masterplan in 2009. The specific objectives associated with the Chatsworth Gardens Scheme are:

The Council has been working with the Homes and Communities Agency (HCA), formerly known (prior to December 2008) as English Partnerships, to deliver the Chatsworth Gardens Housing Exemplar scheme. The objectives of the proposal are as follows:

- Attract families and long-term residents to live and work in and near the town
- Create a more balanced community
- Reverse the negative perception of Morecambe's West End as a place to live
- Reduce the number of HMOs (Houses in Multiple Occupation)
- Kick-starting public/private investment in the area;
- Creating confidence in the market – to show that family housing is possible and hence have a catalytic effect (along with the other interventions)
- Deliver quality housing stock to Code for Sustainable Homes Level 3
- Address crime and social conditions in the area

- Act as a demonstration to the market in terms of the standard and quality of
- housing that should be delivered in the Masterplan area

As 40% of the districts homelessness derives from failed private sector tenancies in the West End, these proposals will help reduce homelessness as the housing supply imbalances are corrected and the transient nature of the community is stabilised.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The Masterplan has carefully considered issues of sustainability and is drafted on those principles. The scheme will be designed and built in accordance with English Partnerships Quality and Price Standards which ensure high quality urban design, including safer by design and life time homes standards as well as high environmental.

Human rights and diversity issues are given special consideration as owner interests are acquired and through dedicated resettlement support offered to existing residents.

FINANCIAL IMPLICATIONS

Following the collapse of the agreed scheme, the council is under obligation to present the HCA with a preferred option for future development of the site. The financial analysis within the body of the report, and reviewed further below, assumes that design option 12 is preferred.

In purely financial terms, the least risk comes from design option 1, that being withdrawal from the scheme and disposal of all properties. This would not lead to clawback of funds already invested and the council would be able to cover its eligible disposal costs. There are, however, other key risks (which could have a financial impact in the future albeit difficult to quantify) linked to this option as outlined in the report, particularly around failure to deliver on regeneration and a loss of reputation with stakeholders.

There are 10 other options, apart from 1 and 12, which vary from £2.5M to £12.3M in terms of additional estimated funding requirement (as per Appendix 2). Any of these could form the basis of a proposal to the HCA, depending on the extent to which Members accept the methods used by the consultant to prioritise the options, but clearly affordability is a major factor, again as outlined in the report.

For any of the 12 options though, it must be appreciated that the figures from the external consultant have not been subject to detailed finance officer appraisal at this stage although they have been reviewed by RICS qualified council staff. The analysis below discusses some of the main risks on option 12 but this is by no means complete; formal detailed appraisal of the whole life cash flow, borrowing and cost implications has not been possible at this stage for any of the options. If Members were comfortable supporting option 12 (or any other option) in principle, as the basis for officers to work up a full bid to the HCA, a full appraisal would be required using the council's existing corporate processes prior to taking any final decisions.

Furthermore, as part of the HCA's appraisal, it is assumed that this would include a full appraisal of the preferred option against the objectives of the project, as set out under the 'Relationship to Policy Framework' section earlier, and the outcome of this would be reported to Members in due course.

The final general comment relates to internal project development and management costs. The extent to which external funding may ultimately cover these is unclear, but nonetheless staff time is being taken up now and this will continue into the future. It is apparent in Appendix 4 that at present, costings do not include such internal costs but this would need to be addressed prior to submitting any funding bid. This sort of scenario is one of the reasons why there are related budget variances as covered in the Corporate Financial Monitoring report and associated recommendations - any implications arising from this project will be reflected in that future report to Cabinet. With regard to external consultancy fees, it is anticipated that these will fully utilise the revenue growth approved during the budget

Main Identified Financial risks linked to Option 12

Funding/Income

Assuming that the HCA only grant an additional 'minimum' £2.6M to complete Phase 1 (that is, a situation in the report's view which makes it necessary for the council to undertake all the refurbished elements) the balance of funding comes from house sale receipts. A scheme that is cost neutral to the council is contingent on generating £2,232K of sales income from refurbished properties (and on passing the risk of loss on the new-build element to the private sector developer) and £1M of income from non project properties already acquired. This income will be sensitive to fluctuations in the housing market with the combined effect illustrated as follows:

	Income loss at value reduced by:			
	-2%	-5%	-10%	-15%
Refurb. income £2,232,500	-£44,650	-£111,625	-£223,250	-£334,875
Non project £1,000,000	-£20,000	-£50,000	-£100,000	-£150,000
Total potential loss	-£64,650	-£161,625	-£323,250	-£484,875

This means that, all else being equal, a 2% drop in house values will be a direct cost to the council of £65K. Clearly, the opposite of this is also true should values rise, but given the current economic climate it is important that any decision on this scheme is made in the knowledge of the risks (and opportunities) linked to the housing market.

Under the phased approach, a potential buffer against these costs would be to realise income from sale of properties already owned in the Phase 2 block:

Appraised Refurbishment Value of "Phase 2" acquired property (current valuation with anti-HMO covenant)	Remaining valuation income when reduced by:			
	-2%	-5%	-10%	-15%
£1,050,000	£1,029,000	£997,500	£945,000	£892,500

Even after heavy discounting it can be seen that the council should be able to cover potential losses arising from phase one, however, the sale of Phase 2 property would damage the ability to progress a 'comprehensive' 2 block scheme approach. It also poses the same type of risk, linked to disposal of undeveloped properties, which made Option 1 and single block options unattractive in the consultant's risk assessment. However, this must be seen as part of the overall flexibility inherent in phasing the preferred option. Clarity would be required in any future funding agreement that this was a legitimate usage of the sales proceeds.

Costs

At present, the costs in Appendix 4 are not complete. Further detailed work is required to assess other costs not included and how these may be funded; for example, the cost of supporting cash flow as well as holding and security costs on the properties. Assuming that costs equal to the sales income of £2.2M build up evenly over a 1 year construction period and income is recouped evenly over the following 1 year period, cash flow costs alone would be in the order of £25,000 (using current PWLB rates for a 2 year loan @ 1.15%, Minimum Revenue Provision is assumed to net to 0 as the scheme should not create any demand on the council's borrowing requirement over its life). If these costs are to be funded from the sales income, for the scheme to break even, the current sales projections would need to be exceeded by the amount of any additional cost. If it is judged that these costs are eligible for grant funding then the grant bid would need to be uplifted from the £2.6M 'minimum' estimate.

Further, the ARUP report gives a figure of £9.2M for option 12 as presented in appendix 2. The provisional additional claim amount per appendix 4 is £6.3M. The difference of £2.9M relates to the savings referred to in paragraph 3.8. Although reducing the cost of the scheme may potentially increase the chance of approval by the HCA, the assumptions of the cost savings need to be rigorously tested. Any increase in costs that is not matched by an increase in sales revenue, would be payable by the council.

VAT

The figures in appendix 4 take account of non reclaimable VAT, reflecting the fact that sales of refurbished dwellings are generally VAT exempt. However, further work will be required to clarify the VAT position as part of the detailed working up of the grant bid.

General comments on Option 12

The discussions above highlight some of the key financial risks on Option 12 where the funding available is a 'minimum', namely: dependence on sales income to balance the financing; uncertainty over identifying/estimating all project costs and how some would be funded; and the risk of putting forward a lower value scheme to help secure funding without being able to mitigate the projected lower costs. It is likely that these general themes are applicable to all options albeit with different levels of exposure for the Council depending on the funding made available by the HCA. For example, even if the HCA made £3.9M available for the preferred option (where officers believe there to be lowest risk of the council needing to act directly in delivery) there would still be delivery risks. The risks increase commensurately the less funding is available until the 'bottom line' funding requirement of £2.6M is reached.

SECTION 151 OFFICER'S COMMENTS

This report is very complex and Members are advised to ensure that they understand the nature of the proposals set before them prior to taking any decisions. Costings should be regarded as indicative.

Whilst there is no risk free option, the preferred option could involve substantial financial and other risks even if the HCA are prepared to support it at £3.9m (the report considers this funding provision potentially unlikely and unaffordable in the current economic climate). The risks are linked to the level of public funding available with lower funding likely to involve the council in direct delivery risk. Members (and Officers) need to satisfy themselves that they have the appetite for this, as well as the skills and other resources to deliver it successfully

with respect to the final funding settlement.

That said, no new contractual obligations will arise from Members' consideration of this report and any decisions taken at this stage. The information presented does not support such a situation. As reflected in the recommendations, a further report to Cabinet would be required before any final decisions are made and if the proposals could not be delivered within the budget framework, the matter would then need to be referred on to council.

LEGAL IMPLICATIONS

Legal Services have been consulted and their comments inserted within the body of the report where appropriate.

In terms of the current funding agreement Schedule 2, Part 1 of the agreement dated 21/12/2005 states that the Council will within 6 months (agreed with the HCA as being) from 06/01/2010) provide the Agency with its detailed written proposals for the future management development and disposal of the Council site. HCA accepted the receipt of the final ARUP study for the purposes of the Termination Provisions. Following from the July date the Termination Provision deadlines are now as follows:

6 October 2010 - HCA to have complied with Schedule 2, Part 1, clause 1.3. That is the Agency will as soon as reasonably possible (and in any event within three months of receipt of the Council's Proposals) consider and notify the Council whether they are (in its sole discretion) acceptable to the Agency. In essence this means whether it is in a form/appropriate to enter HCA detailed appraisal processes and whether it is an 'acceptable' platform on which to move forward.

The next key date is 6 January 2011 – where HCA put forward Counter Proposals to the Council (if required) In effect the time between 6th October and this date is their own approval of investment decision process combined with any view they might want to have on changing /amending the proposal. The final deadline is: 6 April 2011 – parties to reach agreement on the Revised Scheme, failing which the Council is to appoint the Disposal Surveyor.

MONITORING OFFICER'S COMMENTS

On the basis that Cabinet's decision at this stage is to select a preferred option for consideration and appraisal by HCA, the decision will not immediately result in any legal liabilities for the council. However, Members should be aware that once the HCA has appraised the council's proposal, there will need to be an agreement with HCA to progress the revised scheme. Whilst the relevant detailed financial and legal implications will be considered at that stage, it is important that Members at this initial stage understand the implications of their preferred option.

BACKGROUND PAPERS

ARUP Housing Exemplar Options Feasibility Study (exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972.
Winning Back Morecambe's West End Masterplan
Morecambe Action Plan 2002
Lancaster District Housing Strategy 2004/08

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Appendix 1(a) – Summary Table Site Design Options

Approach Type	Description	Study Option Variants	Key advantages	Key disadvantages	Matrix Score
A	Disposal only Dispose of all acquired properties No physical intervention	Study Option 1: This is the 'default' option of 'withdrawing' from the project site and reducing public losses in the scheme. Sub-variants of this particular option could be based on the nature and strength of sales covenants to secure some tenure change.	Restricts public sector spend and reduces public sector financial risk.	Potential 50% plus loss on disposal Disposal may take several years Adverse impacts likely to be caused as a result Negative regeneration effect	87
B	Base model A "site wide" approach with 2 blocks completed (i.e. all properties refurbished)	Study Option 2: Rear outriggers demolished, one storey removed from Regent Rd properties, all houses refurbished as 4 bed units, adopted rear areas. Study Option 4: As above but introduce shared surface and private rear areas.	Reuses maximum units Traditional streetscape preserved	Lack of variety limits market Sales rate slower Impact on appraisal	122 to 127
C	Non-preferred "site wide" approaches Essentially the base model with introduction of what are considered (after analysis) to be sub-optimal new build and design elements; for example flats on Regent and Balmoral Road.	Study Option 5: Base model substituting 16 new build houses to Chatsworth Road, shared surface and adopted rear areas Study Option 7: Base model substituting 21 new build 3 storey 3 bed houses on Regent Road, adopted rear areas Study Option 9: Base model substituting 2 bed flat conversions to Balmoral/Regent Roads adopted rear areas.	Improved mix Better parking, secure rear Attractive setting to Chatsworth Rd Improved sales rate	Under options utilising Regent Rd properties – these are costly to refurbish and large size limits end value High standard but not exemplar	126 to 141
D	Preferred "site wide" approaches The Base Model with introduction of what are considered (after analysis) to be optimal new-build and design elements.	Study Option 11 Base model with 14 new build 2 storey houses on Chatsworth Rd with shared surface, private rear areas Study Option 11a Option 11 with additional renewable energy provision Study Option 12 Option 11 plus 21 3 bed 3 bed 3 storey houses on Regent Rd replacing the larger refurbished houses	Improved mix Improved sales rate Removes difficult to treat large houses on Regent Rd. Creates greater certainty on cost. Better parking, secure rear Attractive setting to Chatsworth Rd	3 Storey new build houses costly to build Sale prices may produce lower return High standard	146 to 149
E	Single block variant of approaches B, C and D Essentially utilising the disposal of all properties in the East block to enable a single block scheme to progress for the West block. <i>Note: In all scenarios the West block is retained and the East block realised due to more extensive current public ownership of the former and the higher quality/ better prospects for sale on the latter.</i>	Study Option 3: Base model to West block and disposal of remainder Study Option 6: Option 5 to West block and dispose of remainder Study Option 8: Option 7 to West block and dispose of remainder Study Option 10: Option 9 to West block and dispose of remainder. <i>Note: While single block variants to Approach 'D' typologies are not outlined these would be similar in outturn to Option 6 with some elements of Option 8 as above.</i>	Restricts further public sector investment	Potential 50% plus loss on disposal of properties Adverse impact likely to be caused as a result Partially negative regeneration effect Sales slower in developed block	100 to 112

Appendix 1(a) – Summary Table: All Opportunities and Risks for Site Design Options

Approach Type	Description	Study Option Number	Dwellings Improved or Developed No.	Overall Housing Quality Indicator (HQI)	Building for Life Score Average	SAP Rating	Average Carbon Emissions kg/sqm/pa	Overall Construction Cost £,000 psm	Overall Marketability	Overall Delivery Risk	Employment Generated	Wider Regeneration Potential	Private Sector Investment Generated £m	Net Public Sector Investment £m	Profit on cost (% loss)	Totals
A	Disposal only - Dispose of all acquired properties No physical intervention	1	2	8	2.8	7.8	1.5	10	1.8	20	1	2	2	20	7.7	87
B	Base model - A “site wide” approach - With 2 blocks completed (i.e. all properties refurbished)	2	11	14	5.5	13	11	1.8	13	17	7.3	12	12	2.3	1.9	122
		4	11	14	7	13	11	1.7	15	16	7.3	14	14	2	1.8	127
C	Non-preferred “site wide approaches” - Essentially the base model with introduction of what are considered (after analysis) to be sub-optimal new build and design elements; for example flats on Regent and Balmoral Road.	5	11	15	7.3	13	12	1.6	18	18	7.3	16	13	4.6	4.7	141
		7	11	14	6	13	12	1.5	16	17	7.3	16	14	4.7	5.4	138
		9	20	14	6	13	11	1.9	3.6	2	10	12	20	2.8	10	126
D	Preferred “site wide approaches” - The Base Model with introduction of what are considered (after analysis) to be optimal new-build and design elements.	11	11	15	7.5	13	12	1.5	20	18	7.3	18	14	5.3	5.6	147
		11a	11	15	7.5	14	12	1	20	18	7.3	18	14	4.5	5.1	146
		12	11	14	7.5	13	12	1.1	20	18	7.3	18	15	5.6	6.7	149
E	Single block variant of approaches B, C and D - Essentially utilising the disposal of all properties in the East block to enable a single block scheme to progress for the West block	3	6.3	14	5.5	11	6.4	1.7	7.3	17	4.5	8	7.2	13	1	102
		6	6.5	14	7.3	11	6.5	1.5	11	17	4.5	10	7.7	13	2.7	112
		8	6.6	14	6	11	6.7	1.4	9.1	13	4.5	10	7.6	13	2.3	105
		10	9.4	14	6	11	6.4	1.9	5.5	8.6	4.5	10	8.5	12	2.9	100

Explanatory notes to criteria used in Summary Table “All Opportunities and Risks” Variables for Site Design Options

The adjusted score in each case reflects a scoring system where high scores are good. Scores are set within three coloured bands, Green (High) Amber (Medium) Red (Low).

Number of Dwellings Developed or Improved – This is simply the number of new housing units built or refurbished.

HQI Score – This Housing Corporation scoring system is adopted as the most suitable current approach to assessing refurbished properties for presentation to the project funder the Homes and Communities Agency.

Building For Life - This score reflects the overall context and quality of the development as a whole and is a standard specified by the project funder. Where only one block is developed the score is adjusted downwards to reflect the score applicable to the unimproved area.

SAP Rating – The Standard Assessment Procedure (SAP) is an agreed methodology for measuring a buildings performance in terms of energy efficiency and usage.

Average Carbon Emissions – Since low emissions are best and therefore the lower the emissions the higher the score.

Average Construction Cost – The lower the construction cost for each option the higher the score. Option 1 scores high because there are no associated construction costs. The remainder are in a relatively narrow band. Options 11, 11a and 12 score low by virtue of additional public realm works added to the total costs to improve ‘context’.

Overall marketability – Options that are easier to sell by virtue of the housing quality and the range of house types and sizes scores best and less saleable options with fewer housing types sell more slowly due to poor marketability. This is based on advice and discussions with local agents as explained in the table in the Market Analysis.

Overall delivery risk – This is the aggregated risk score for each option and covers all the main risks to the project including cost, delays, legal issues, approvals, insolvent contractors, acquisitions, VAT, mortgage famine etc.

Employment Generated – This represents short-term full time equivalent job years.

Wider Regeneration Potential – This represents the wider regeneration benefit to the local area.

Private Sector Investment Generated. This is the total project cost less the overall project shortfall. This equates directly to the net realisation from sales revenue.

Net public Sector Investment – This is the net shortfall on the development. For Option 1 it is the loss on disposal with restrictions.

Profit on Cost (%loss) – Represents the public sector investment to return the project to break even as a percentage of the total project cost.

Appendix 1(b)

Design Option Plans

(see separate PDF Appendices)