

Appendix Two: Business case for the development and supporting information

1. Overview

- 1.1 The table below provides an overview of the 30 year business plan that supports this business case. This shows the anticipated income streams and expenditure, it also includes the capital expenditure and borrowing requirements. A summary of the capital expenditure is also provided below.

Project Cash flow for Queens Drive New Build

	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	5 years to 2028 £000's	10 years to 2038 £000's	9 years to 2047 £000's	Totals £000's
Revenue										
Income										
Rent from Conversion of existing Properties		(104)	(214)	(329)	(337)	(346)	(1,863)	(4,493)	(5,111)	(12,798)
Rent from New Properties				(121)	(348)	(660)	(4,438)	(9,318)	(8,856)	(23,741)
		(104)	(214)	(451)	(685)	(1,006)	(6,301)	(13,812)	(13,967)	(36,539)
Revenue Expenditure										
Responsive repairs relating to new build				5	16	31	223	566	679	1,520
		(104)	(214)	(445)	(669)	(975)	(6,078)	(13,246)	(13,288)	(35,019)
Revenue Surplus										
Capital Income										
HCA estate renewal grant	(104)									(104)
HCA new build grant		(3,436)		(1,018)	(919)					(5,373)
New Borrowing	(1,413)		(4,874)	(15,306)	(4,102)					(25,695)
	(1,517)	(3,436)	(4,874)	(16,324)	(5,021)					(31,172)
Capital Expenditure										
Capital Financing costs	23	23	80	413	734	766	3,439	5,211	1,809	12,498
Capital Spend	1,472	825	5,821	14,467	4,429					27,014
	1,495	848	5,901	14,881	5,163	766	3,439	5,211	1,809	39,512
Net Capital Position	(22)	(2,588)	1,028	(1,443)	142	766	3,439	5,211	1,809	8,341
In Year (Surplus) Deficit	(22)	(2,693)	813	(1,888)	(527)	(209)	(2,639)	(8,035)	(11,478)	
Loan Repayment		1,413				2,156	2,665	8,029	11,432	
Net cash position (Surplus) Deficit	(22)	(1,279)	813	(1,888)	(527)	165	(1)	(1)	(40)	

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Capital Cost Overview

Contractor's Preliminaries:	£3,106,006
Contractor's Overheads & Profit	£365,413
Dwellings / Main Structure	£14,018,679
Site Works:	£2,075,176
Drainage:	£1,151,897
External Services	£1,024,875
Design Fees:	£667,674
Project Management / Client Management	£1,655,931
Buy Back of Properties	£520,000
Loss of Home & Moving Costs	£557,600
Security	£18,200
Postal addresses	£1,490
Wayleaves / easements	£5,000
Project manager	£96,000
Contingency	£3,261,307
	£28,525,247
Inflation Provision	£1,992,753
Total Scheme Cost	£30,518,000

- 1.2 The current construction programme anticipates this being built as two separate development projects, which are the George Gay Gardens site and the "T" blocks site, the contract price from Willmott Dixon has been based on this assumption. However if it is possible to build this as one scheme it should be possible to secure a reduction on the overall project.
- 1.3 Borrowing costs are assumed to continue at the current HRA consolidated rate of 3.32%, based on current loan rates it is possible that a lower interest loan may be available to the HRA when it requires the funding associated with this scheme.
- 1.4 The business plan has been produced using the HRA 30 year business modelling software on the assumption that this is a stand-alone business proposal. The cost of borrowing has been included as part of the business plan and therefore is the first call on any income received.
- 1.5 Income for this scheme is derived in a number of ways, the main funding source is the rental of the new property that is being constructed. In addition to this there is also additional income from other HRA properties that will be converted from Social rent to Affordable rent, this yields approximately £40 per property per week that can be used to support the borrowing cost of this development. (as detailed above). The third source of funding is from the Homes England (formerly the Homes & Communities Agency) who provide grant funding, this is normally paid out 50% on start on site and 50% on completion. Initial discussions with Homes England have indicated that a grant of £50k per property may be possible, the business plans have been produced on the basis of £45k per property (SBC have received £35k per property for recent Homes England supported schemes).
- 1.6 Subject to approval at Cabinet, a Planning Application will be submitted in November 2018, with approval in February 2019. Start on site at George Gay Gardens is expected in May 2019, with completion in August 2020. The "T"

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Blocks are complicated by having 2 leaseholders who may require compulsory purchase orders. Negotiations are ongoing, but allowing for a compulsory purchase, we expect to start on site in November 2020 with completion in June 2022.

Market Analysis

- 1.7 The proposed approach is for the affordable properties to be retained within the HRA. However, there may be benefits to considering alternative market channels.
- 1.8 Social Housing rents have reduced by 1% per annum for the past 2 years, and with 2 more 1% rent cuts to be delivered. It was announced in November 2017 that policy would revert to CPI +1% from April 2020.
- 1.9 Private rents in Swindon are currently increasing, the Net Present Value of the rental income stream is often higher than the sale price. At the moment sales would be problematic, because the current values do not meet construction costs. This was also the case initially at Sussex Place, but values uplifted significantly as a result of the regeneration, and there is no reason to believe this will not be repeated.
- 1.10 The current values being lower than build costs also mean that affordable home ownership is a challenge. This will be reviewed as the market inevitably changes. Soft market testing with shared ownership providers indicates that the Council could get as much as 98% open market value selling them as 50% shared ownership properties.
- 1.11 It is proposed to set rents at the Local Housing Allowance. This means that rents can be covered by housing benefits should tenants require this. This rate includes the service charge, management costs, maintenance costs and debt repayment.
- 1.12 In order to maintain affordability in the new homes we propose to include a number of “conversions” as set out in the table in 1.14. This means that the Council would increase the rent on the relevant number of vacant homes, so the rent is Affordable Rent at 80% of market rents rather than Social Rent at 60% of market rents. This was done for the previous Affordable Homes Development Programme 2015 – 2018 Bid. Experience has shown that although the rents are higher we have seen no change in bidding behaviour by prospective tenants. In a new build property the higher rent can be justified by the reduced utility costs from improved energy performance, however, a tenant in a converted Affordable Rent has higher rent and a higher energy expenditure. The Asset Management team will prioritise these properties for energy efficiency improvements in their programme.
- 1.13 There are primarily two options for the development of the site these are that a) the HRA builds all of the units for rent or b) the HRA builds some of the units for rent and the remainder for sale. Two different sales scenarios are presented in the table below to show the impact that these would have to the overall finances of the scheme.
 - 1.13.1 The base case - this represents the most likely cost and income for the scheme, this shows that given the costs outlined above the HRA would

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need to convert 171 properties to affordable rent if the Homes England grant is £45k

1.13.2 No Conversions – this shows the impact if the decision is taken to not undertake any conversions, and require the development to rely on only the funding achieved from the site. Under this scenario the project would still have an outstanding loan of £21.79m after 30 years.

1.13.3 Social Rent – this shows the impact if it is decided to rely solely on social rental values, these are generally £40 per week lower than affordable rent. In this instance grant would not be received as affordable rent is a condition of the grant. The rental income is not sufficient to meet the annual interest charges by circa £270k. The results of using social rent would be that the outstanding loan at 30 years would be £30.459m, over the same period the project would also require £8.028m of support from the wider HRA to cover the shortfall in rental income.

1.13.4 Sales Scenario 1 – this shows the impact if a decision was made to sell 26 of the properties, this could produce sales income of £6.3m, however it would reduce the grant income receivable during the project, it would reduce the number of conversions to 138. The proposal is to sell these on a shared ownership basis

1.13.5 Sales Scenario 2 – this shows the impact of selling 26 properties on a shared ownership basis and 22 properties sold outright, this would yield sales income of £12.5m with 105 conversions but would not result in a net increase in HRA stock numbers.

	No HRA units	Rental basis	Grant per unit	No of Conversions	No of Sales	Peak Debt	Loan Repaid or debt at year 30	Project working balance at year 30	Scheme Cost
Base Case	149	100% LHA	£45,000	171	0	£24.821m	2046/47	£80,408	£30.518m
No Conversion	149	100% LHA	£45,000	0	0	£25.956m	£21.790m	£3,250	£30.518m
Social Rent	149	Social	£0	0	0	£30.459m	£30.459m	(£8,028,450)	£30.518m
Sales 1	123	100% LHA	£45,000	138	26	£22.688m	2040/41	£66,452	£30.518m
Sales 2	101	100% LHA	£45,000	105	48	£23.630m	2040/41	£25,800	£30.518m

1.14 In terms of tenure mix, the proposal for a large number of additional affordable rented homes in a single development needs to be considered in the context that Park South is a reasonably mixed tenure area because there are a high number of ex-Council properties that are in private ownership.

1.15 The calculations show that the option to build for social rent is not affordable or sustainable. Grant is only available for Affordable Rent so this could only be financed from within the HRA business plan. The debt outstanding at year 30 would still be £30.4 million, meaning that the original debt would still be unpaid.

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- 1.16 The project cost of £30.5m is significant, particularly set against the £55.7m borrowing headroom currently available to the HRA. Should an option to sell some of the properties be taken the HRA would still need to cover the construction costs with borrowing up to the point of sale.
- 1.17 The option to sell or privately rent properties may be helpful to manage cost overruns or income shortfalls that arise during the construction. Enabling the Housing Company ("RentCo") to acquire one of the blocks for private rental would assist the tenure mix and reduce the risk to the HRA. This would require a separate appraisal and approval from the Company Board. This proposal sets out viable business case options for the HRA only.
- 1.18 The Council needs to apply for grant from Homes England to make this development viable. Homes England have already provided £104,000 Estates Renewal Grant for this project and are keen to support it with grant.
- 1.19 Government is keen to increase delivery of affordable housing, and national delivery on the Shared Ownership and Affordable Housing Programme has been limited, so the Council will be in a strong position to increase revenue from grant. The initial bid for grant will be at £50,000 per unit.

Assessment of Benefits

- 1.20 The project involves demolishing 50 outdated poor quality sheltered flats at George Gay Gardens, and 36 outdated flats at the "T" Blocks. These will be replaced by 149 new, energy efficient, attractive homes in a prime location for accessing local facilities and employment.
- 1.21 Queens Drive is a major gateway to the town centre, and this project will improve the appearance of Swindon to visitors.

Means of Delivery and Procurement

- 1.22 The project will be delivered by the Design Team acting in a Design & Build capacity, in partnership with HRA officers acting as the client. Construction and associated works will be procured in line with Council standing orders.
- 1.23 The preferred procurement route is to use the Scape Framework. This has a number of advantages, and worked successfully at Sussex Place. It also assists the Council in meeting grant funding requirements for Constructor Commitments, since the Scape Framework uses its scale to generate additional social value from the construction work.
- 1.24 Once the contract is in place, Housing and the Design and Architecture Team will work to establish key performance indicators to ensure that project delivers on all its obligations.
- 1.25 The budget also includes a provision for a dedicated HRA project officer to act as a liaison between the design team, tenants and the wider HRA management team.

Cost Benefit Analysis

- 1.26 Although the costs are significant, provided that the project is delivered within budget the cost is sustainable.

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- 1.27 The project can be delivered within existing resources. The Design Team will be funded from the HRA for the work at 2.65% of the project cost. The Council General Fund will receive an income of approximately £700,000 for delivering the scheme. The Design Team are currently working on 5 other HRA development sites, which will be completed before this scheme commences, and they have not identified any capacity issues with delivering this scheme.

Key Assumptions and Dependencies

- 1.28 The current budget is based on a low risk approach, it assumes that the George Gay Gardens site and “T” Blocks site are developed as two separate phases of construction
- 1.29 The development business case has been prepared on the basis of this being a stand-alone scheme with all funding and income ring fenced to the scheme, there is no expectation of other HRA resources being used to facilitate this development.
- 1.30 The business plan has assumed the need for the scheme to break even over a 30 year period.
- 1.31 The cost includes decant costs, demolition cost and a HRA client contingency of £3.2m (15%), this is in addition to £750k of construction contingency.
- 1.32 The costs include a provision of £2m to cover inflation (RPI 2.5%) in addition to the contingencies noted above.
- 1.33 Borrowing costs are assumed to continue at the current HRA consolidated rate of 3.32%.
- 1.34 It is not anticipated that there will be any need for additional staff to support the tenancy management requirements associated with this scheme, the HRA tenancy management team has not historically changed in line with changes in stock numbers.
- 1.35 Capital repairs and renewals are not budgeted as part of this proposal as a budget is set for the HRA as a whole, and spend is prioritised based on stock condition surveys.
- 1.36 Income has been assumed on the following basis
- 1.36.1 Affordable rent which is set at the Local Housing Allowance rate (LHA) less any attributable service charges. The LHA represents the 30th percentile of rents in Swindon as at April 2016. The LHA is the maximum funding that Housing Benefit will provide and varies by property size. For a rent to be deemed to be affordable it must be no more than 80% of the market rate in the area, the LHA provides a good proxy for affordable rental values.
- 1.36.2 That the HRA will convert a number of existing property rents to their affordable equivalent, with the additional income supporting the borrowing requirements of this scheme. The new rents will only apply to tenants taking on a new tenancy and will not affect existing tenants.

1.36.3 That Homes England grant of £45k per unit built will be forthcoming. It is assumed that 50% of this funding will be received at start on site with the remainder on completion

1.36.4 Service charge income and costs have been excluded from the business plan as the Council is only allowed to charge the actual costs of providing the services, therefore the income and costs will be net nil.

1.37 Inflation has been assumed at RPI of 2.5% throughout the model, LHA rate has been assumed to increase at 1% pa, service charges have been assumed to increase at 2.5% pa, and this results in a net rental income increase of circa. 0.65% per annum. An allowance of 3% of rents has been made to cover void and bad debt costs, this is in line with the current HRA expectation of costs.

Risk and Sensitivity Analysis

1.38 The principal risk at the moment is securing the 2 remaining privately owned flats in the "T" Blocks.

1.39 As noted at 1.13 above the only options that do not result in the debt being repaid within 30 years are the No Conversion and Social rent options, the other choices will all repay within 30 years albeit with a requirement for different numbers of conversions.

1.40 The table below sets out a number of potential scenarios to demonstrate the impact of different levels of grant and the impact of changes in the build costs.

1.40.1 Scenario 1 - this shows that if only £30k of grant is obtained per unit then the number of conversions would need to increase to 216.

1.40.2 Scenario 2 - this shows that if a grant of £50k is obtained then the number of conversions would fall to 156.

1.40.3 Scenario 3 – this shows that if the contingency is not required then the number of conversions required will fall to 105

1.40.4 Scenario 4 – this shows the impact of an increase in build costs of 10% over the inflation already included in the model, in this scenario the number of conversions would increase to 226.

	No HRA units	Rental basis	Grant per unit	No of Conversions	Peak Debt	Loan Repaid	Project working balance at year 30	Scheme Cost
Base Case	149	100% LHA	£45,000	171	£24.821m	2046/47	£80,408	£30.518m
Scenario 1	149	100% LHA	£30,000	216	£26.438m	2046/47	£130,511	£30.518m
Scenario 2	149	100% LHA	£50,000	156	£24.282m	2046/47	£63,774	£30.518m
Scenario 3	149	100% LHA	£45,000	105	£21.567m	2046/47	£62,007	£27.014m
Scenario 4	149	100% LHA	£45,000	226	£27.549m	2046/47	£58,894	£33.450m

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Resource Requirements and Costs

- 1.41 There are no further resources required. There is a project officer included in the cost, and it would be necessary to retain that post permanently if the project proceeds.

Timescales

- 1.42 Subject to approval at Cabinet, a Planning Application will be submitted in November 2018, with approval in February 2019. Start on site at George Gay Gardens is expected in May 2019, with completion in August 2020. The “T” Blocks are complicated by having 2 leaseholders who want to have compulsory purchase orders for tax purposes. Negotiations are ongoing, but allowing for a compulsory purchase, we expect to start on site in November 2020 with completion in June 2022. The units constructed will be released for rent in phase as construction proceeds.