

Report to the Cabinet

Report reference: C-005-2024/25

Date of meeting: 28 May 2024



**Epping Forest
District Council**

Portfolio: Housing and Strategic Health Partnerships

Subject: Roundhills Development – re-appraised position

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1. Recommendations/Decisions Required:

1. Cabinet to agree for EFDC buy 28 homes on completion at Roundhills, Waltham Abbey at a cost, that recognises the current economic circumstances in relation to land value and construction costs [1]. This being in recognition of the units being of strategic importance to EFDC and meets our corporate objectives, Stronger Place and Stronger Communities.

2. Executive Summary:

- 2.1 In October 2018, Cabinet approved for the appointment of a development consultant to prepare an outline planning application for the demolition of the former Waltham Abbey Swimming Pool, Roundhills, Waltham Abbey. The site had been allocated for residential accommodation within the Council's Local Plan.
- 2.2 In October 2021, a number of EFDC sites were transferred to Qualis including Roundhills. The Roundhills site was purchased by Qualis for the sum of £1.39 million. The site attracts an interest cost to Qualis of £16k per month in addition to liabilities for corporation tax.
- 2.3 Planning permission has been obtained on the Roundhills site for the building of 28 units, all of which are being proposed as affordable.
- 2.4 A construction cost through a tender exercise has been held from late 2023 of £8.89 million. This contractor cost is time limited and only held until 29th May 2024. After this date, there is a risk of the construction cost being subject to an increase expected to be in the region of 2.5% [2] (at 2.5% this represents £222k).
- 2.5 The development of 28 units will add great strategic value to EFDC. The development will provide much needed homes and supports the Council's Corporate Plan. We currently have c1700 on the Council's Housing Register with wait times on average exceeding 2 and 3 years for family sized accommodation, and over 1 year for one-bedroom sized accommodation. This is also set against a backdrop of increasing pressures on homelessness services, approaches, and demand for accommodation being experienced both locally and nationally.

[1] – Cost modelling carried out using ProVal, a development financial modelling tool used by social housing providers. This tool considers factors such as construction costs, rents, inflation, market conditions and long-range assumptions. This provides details of financial costs versus returns over time.

[2] – Stace Outlook Index, all-in average forecast for 2024. Stace is an independent construction and property consultancy across the UK.

3. Report – Proposal for EFDC to buy 28 units on completion

3.1 With the passage of time since inception of the scheme in 2018 and, subsequent purchase of the land by Qualis in 2021, the operating landscape for housing and the construction industry has changed. There has been a general increase in construction costs and materials and much of this has impacted the current financial position of Roundhills development.

The Council recognise an additional 28 units are of key strategic importance and support the corporate objectives, Stronger Place and Stronger Communities.

3.2 The development consists of 28 homes:

22 x 2 bedroom / 4 person houses

6 x 3 bedroom / 5 person houses

3.3 The current valuation of the Roundhills development using ProVal (financial viability software for social housing providers used by EFDC) provides the following position:

a) ProVal open market valuation of the completed 28 houses is £11.65 million

b) Purchase price of the completed 28 houses is £12.8 million. This includes the land acquisition cost of £1.390 million

3.4 The current funding of the development includes a contribution of Right to Buy receipts (1-4-1 receipts) from the Council of £3.712 million which represents 29% of purchase price.

The maximum level of 1-4-1 receipts that can be used on a development scheme is 50% (from April 2024). However, due to the level of 1-4-1 receipts already committed on other development sites within the HRA BP, the maximum that can be used for Roundhills is 29%.

Note - there are limitations as to the proportion/value of 1-4-1 receipts that a single development can include and, this is also dependent upon commitments to other development sites that include funding via 141 receipts.

3.5 The purchase price is £12.8 million and includes the land acquisition cost by Qualis of £1.39 million.

3.6 The Derrick Wade Waters (RICS Registered Valuers) valuation of the 28 houses on the open market at completion totals £11.65 million compared with an actual purchase price of £12.8m.

3.7 There are two further factors for consideration in addition to the position of the purchase price compared with the market value.

a) With the increased cost to develop the site, there is an additional cost of borrowing to the 30 Year HRA Business Plan. This results in an overall increase of £10 million over the 30 years of the plan, increasing the Peak Debt from £382 million to £392 million.

b) The ProVal valuation also indicates a negative Net Present Value (NPV) of -£1.985 million over a 45-year period.

3.8 The indicative cost of delaying a decision to secure the current contract price of £8.89 million is circa £222k (2.5%). The ability to secure the resource required to meet the current build programme is also at risk should a decision be delayed.

3.9 The build period is expected to be 15 months.

3.10 Points 3.3 to 3.9 are based on the best data we have available currently.

4. Joint Venture – option discounted

- 4.1 Consideration has been given to delaying a decision to proceed with a contractor at this stage, and to consider the potential for a Joint Venture (JV) with a third party. This may for example be with a Housebuilder or another Registered Provider/Housing Association.
- 4.2 The purpose of a JV would be to explore the potential to ‘package’ a number of smaller EFDC development sites / pipeline sites together with the Roundhills site, with the aim being to create an attractive and potentially more cost-efficient way, of delivering a number of sites to reduce the overall costs.
- 4.3 The following factors were considered when exploring the potential for a JV
- a) It is likely to take a few months to explore a JV and, there is likely to be a requirement to seek specialist advice to move forward the terms of a JV
 - b) A positive outcome / JV is not guaranteed
 - c) The overall cost benefits may vary and, at this stage the benefits are not known
 - d) There would continue to be an ongoing cost to Qualis for the land of £16k per month
 - e) In pursuing this option, the likely impact of an increase in construction costs as detailed in 3.8 above of circa £222k will be realised
- 4.4 Having considered the key factors and impacts as detailed above, the potential for a Joint Venture route has been discounted.

5. Resource Implications:

- a) There is an impact to the HRA BP of £10 million for additional borrowing to buy the 28 units on completion
- b) There is a £16k monthly cost to Qualis for the land

6. Legal and Governance Implications:

None

7. Safer, Cleaner and Greener Implications:

Safe and clean environments, together with energy efficient homes, will be key objectives in ensuring the homes we provide are places where people want to live and want to stay.

8. Consultation / Scrutiny Undertaken:

No additional consultation carried out at this stage.

Background Papers:

None.

Risk Management:

Risks and mitigations are detailed within the body of the report.

Equality:

N/A