

13 March 2024		ITEM: 22 Decision: 110717
Cabinet		
Blackshots Redevelopment – Business Case		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Barry Johnson – Cabinet Member for Children’s Services and Housing		
Accountable Assistant Director: Ewelina Sorbjan - Assistant Director Housing Management and Development		
Accountable Director: Claire Demmel – Executive Director of Place		
<p>This report is Public with exempt appendices. Appendix 1 (part exempt) and 1a which contain exempt information which falls within schedule 12A of the Local Government Act 1972 - Information relating to the financial or business affairs of any particular person (including the authority holding that information). In all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>		
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Date of notice given of exempt or confidential report: 5 March 2024		
Version: Final / Cabinet		

Executive Summary

The report updates Cabinet on the development of the Business Case for the redevelopment of Blackshots tower blocks and takes members through the considerations taken into account.

It concludes that based on the current assumptions a scheme delivered by the council for 100% affordable housing is viable and will deliver 258 units. The business case and financial considerations are explained in detail within the body of the report. The proposed route is for the council to deliver the scheme itself and to progress this by procuring a main contractor to obtain planning permission and to construct the homes in due course.

It seeks approval for the procurement of relevant advisers to assist the council in delivering and managing the proposed development.

The report also updates members on the progress of clearance of the blocks and critical tasks such as the relocation of the King Georges Fields Tennis Courts and Games area and the Fields in Trust land.

Commissioner Comment:

Commissioners support the recommendations as outlined in the report. Based on the assumptions outlined in the business case, the recommendation is for a financially viable scheme over the 30 years. As with any major long term project, there is inherent risk and sensitivities are outlined in detail in the appendices.

1. Recommendations

- 1.1 Cabinet agrees the design developed to date based on consultation and public engagement as a basis for procuring the next stage of the redevelopment.**
- 1.2 Cabinet agrees to progress to the next steps as recommended below based on the Business Case developed by the council's advisers Avison Young**
- 1.3 The council progresses the Blackshots project following the self-delivery approach.**
- 1.4 Subject to Government agreement to borrowing, approval is given to launch a procurement process to obtain a main contractor for further design and construction and to delegate to the Corporate Director for Adults Housing and Health in consultation with the Leader, Cabinet Member for Children's Services and Housing, Commissioners and Section 151 Officer, the decision to make the necessary contract awards.**
- 1.5 In accordance with the business case model, agree to establish a budget of £70.385m for the projected estimated cost of the works to be funded by HRA borrowing in accordance with the proposed HRA business and capital programme, subject to DHLUC approval.**
- 1.6 Approve the procurement of relevant advisers for the council's client technical team and delegate to the Corporate Director of Adults, Housing and Health in consultation with the Cabinet member for Children's Services and Housing the award of contracts.**
- 1.7 Note that a budget of £700,000 has been identified from within the existing Housing Revenue Account General Reserves to support the provision of the necessary advisers which will be accommodated within the existing HRA balance or funded from reserve should it prove necessary.**

2. Introduction and Background

- 2.1** In December 2022 Cabinet considered the future of the Blackshots estate in light of the fact that the tower blocks at Blackshots are in poor state of repair. Initial consultation had been carried out with residents resulting in a significant majority in favour of the redevelopment of the blocks. Cabinet approved the principle of demolition and redevelopment and agreed resources for the procurement and appointment of a design team and advisers to develop schemes for consultation with residents.

- 2.2 Subsequently, in March 2023 Cabinet agreed the proposed site area for developing proposals. Members also approved the start of decanting residents from the blocks and rehousing in accordance with the council's allocations policy, the payment of home loss and disturbance payments as appropriate and the commencement of negotiations for repurchase from leaseholders. Budgetary provision was set aside to meet the costs of this, and it was agreed to receive a report to consider the full business case for redevelopment.
- 2.3 This report outlines the process followed since then and presents the Business Case for consideration with recommendations set out above.

The Blackshots Tower Blocks

- 2.4 The three blocks, Morrison, Bevan and Keir Hardy Houses were constructed in 1966.
- 2.5 Previous reports have referred to the problems with the Blackshots tower blocks which have considerable problems with damp and mould and had been the subject of resident complaints and of both local and national political and media focus.
- 2.6 External refurbishment was considered but although this would address some immediate issues in respect of the external cladding system, ventilation of communal areas and weatherproofing, it was not able to address the overall design and layout of the properties which do not meet the requirements of today's modern living.
- 2.7 In addition, major works were required to the fixing of the external wall panels; roof covering, windows which are reaching the end of their technical life expectancy and the new regulatory framework required fundamental works to make the properties both safe and habitable. Although much of the work was technically possible, the costs were prohibitively expensive for both short and long-term solutions. Even with significant expenditure the properties were ultimately still sub-optimal and there was no absolute guarantee that some at least of the problems would not recur within the 30-year life-time of the project.
- 2.8 The blocks were not fit for purpose and need to be demolished. The principle of demolition was agreed by Cabinet in March 2023 and a Business Case for redevelopment was required.

3. Issues, Options and Analysis of Options

Commissioning of Business Case

- 3.1 The council sought tenders for multi-disciplinary consultancy services to carry out the design and development of the Business Case through the Crown Commercial Services Framework. The council's Procurement Officers gave advice and monitored the process. Following evaluation Avison Young, in partnership with Levitt Bernstein were appointed.
- 3.2 A procurement process was also held to identify an Independent Tenant Advisor to act as the advocate for the tenants and residents and to liaise between them and the council. Newman Francis were appointed to this role,
- 3.3 The key streams of work in developing the Business Case are:
- Development of design options to RIBA Stage 2 culminating in a preferred option to be taken to preapplication discussions with the council as local Planning Authority.

- Resident engagement and events to run alongside the design process.
- Planning strategy advice and support including co-ordination of pre-application meeting.
- Financial viability and cost consultancy advice to help inform design progression and financial modelling to support the council's analysis of the project.
- Preparation of a business case to inform Cabinet decision-making as to how to structure delivery of the redevelopment of the tower blocks.

The Business Case Process

- 3.4 The Business Case produced by Avison Young is attached at **Appendix 1** The following sections summarise and explain the process and considerations in arriving at the Business case and its conclusions.

Design

- 3.5 The very early indicative designs were prepared by Savills during the initial feasibility work and used to inform the decision to demolish and redevelop the blocks and to identify the development area. These were shown as Appendices to the Cabinet report in March 2023.
- 3.6 Levitt Bernstein reviewed the indicative designs, carried out site analysis, and examined the opportunities and constraints. They also reviewed any alternative sites, although this ultimately proved fruitless. There are no viable alternatives to the replacement sites proposed either through size, availability or lack of feasibility in planning terms.
- 3.7 Levitt Bernstein established masterplan principles and worked on both the north and south sites at Blackshots as an integrated development. After testing what might be possible on the sites and speaking to residents, they developed firmer options. These were narrowed down to a preferred option that was consulted upon with residents at the final engagement meeting in October. This option is shown in the plan at **Appendix 2**
- 3.8 In November 2023 early pre-application planning discussions were held with the council as planning authority. Useful feedback on the design was provided and given the current stage of the design these matters can be dealt with as part of the development of the design, for consideration in the normal planning process. Planning colleagues reiterated the need to demonstrate 'very special circumstances' for the use of the land within the green belt.
- 3.9 This remains a significant hurdle to overcome but positive feedback has been received and the next stage of the design process will need to dwell further on:
- The contribution of the 100% affordable scheme to meeting housing need
 - Contribution to the Borough's overall housing supply to which there is currently a shortfall.
 - The proposals to replace the tennis courts and multi use games area and the intention to significantly enhance the facilities.
 - The replacement and provision of additional Fields in Trust Land
 - The contribution of the proposal to design and visual appearance
 - Significant regeneration benefits and the development of brown field land as a result of the proposal

- 3.10 Subject to matters considered elsewhere in this report the strategy for design and planning from now will be to hand over to an appointed contractor to develop the design in accordance with the most deliverable and viable approach.
- 3.11 The current design has 258 homes split between the north site(78) and the south site (180) composed of 25 houses 10 bungalows, 217 flats and 6 maisonettes. The flats are to be constructed to a maximum of 6 storeys.

Engagement

- 3.12 A programme of four engagement events was held with local residents and stakeholders during the course of the summer in parallel with the design process. A total of 172 residents attended and 60 further comments were received on-line.
- 3.13 As well as showing residents the potential designs at each stage, a range of views was sought from residents concerning the blocks, the redevelopment and the area.
- 3.14 Key considerations from the engagement events were:
- Deliver homes with better energy efficiency standards.
 - Raise the standard of living and improve the local environment.
 - Mitigate and if possible, avoid the development of open space and Fields in Trust land.
 - Increase the quality of available play space and ecological diversity of the local area.
 - Address anti-social behaviour concerns.
 - Mitigate further pressure on the existing car parking provision within the area.

Key Strategic Objectives

- 3.15 Taking into account the views of residents, the existing policy framework, the matters raised in previous Cabinet reports and views expressed by a range of stakeholders the following objectives for this project were agreed as a basis to test and evaluate the options in the Business Case.

These were as follows:

- To vacate the current tower blocks to allow demolition to commence.
- To rebuild no less than the 168 existing residential units, providing high quality healthy housing and associated space that meets the needs of both existing and future residents.
- To deliver no net loss of affordable housing with an aspiration for those to be retained by the council.
- To lessen the financial implications for the council where possible and deliver value for money for the HRA.
- To manage risk exposure to the council.
- Ensure delivery outcomes reduce health and well being inequalities and promote health equity.
- To optimise the use of council land while having regard to the surrounding areas.
- To create and maintain a long-term social value legacy for the local community.

- 3.16 These have been considered and taken into account in examining the delivery options, the financial case and the approach to tenure.

Delivery Options and Approach

- 3.17 The Business Case considers four options for delivery of the proposals.

- Disposal of the site
- Self-delivery
- Development agreement
- Joint venture

- 3.18 In assessing these it is important to find the right balance between risk and reward, the desired level of control and the financial parameters affecting the scheme.

- 3.19 The four options have different advantages and disadvantages.

Disposal of the site

- 3.20 The council's do-nothing option if no other routes could work is to clear the site and leave it pending more favourable conditions. Alternatively, however it could choose to dispose of the site. The cleared site would be sold on the open market for the best consideration available. It is quick and straightforward, but the council has minimal control over the site thereafter, only exercising influence through planning and leading to a significant loss of affordable housing. This will include both timing of any development alongside community benefit, design quality and place making considerations. The council will have very limited ability to achieve its outcomes including guaranteeing the delivery of the numbers of homes and the affordable housing. The council will not achieve significant capital receipts and will not gain any long-term revenue benefits.

Self-delivery

- 3.21 Following detailed consideration in the Business Case, Avison Young recommend that self-delivery is the approach that is likely to respond best to the council's requirements and aspirations for the two parts of the site. While it carries risk in that the council has to fund this itself and bears the risk of cost increases, it gives the greatest control including the amount of affordable housing, speed of delivery and mitigates any lack of market interest. This is the recommended method of delivery.

Development Agreement

- 3.22 Development agreements are partnerships with a development partner for a delivery of a specific scheme usually with a defined land receipt. The legal agreements include detail regarding objectives and parameters for the development of a site generally with the intention that the development partner will seek planning permission. The developer takes on development and sales risk and prices this into the land payment to the council. Although this gives more control than a pure disposal this generally results in the planning system being the principal means of control, and the enforcement mechanism is breach of contract which is a blunt and somewhat ineffective mechanism. In the case of Blackshots, the limited value of the site to a developer given the amount of affordable housing required and the limited opportunity for market sale, precludes this being a worthwhile route.

Joint venture

- 3.23 This is a formal partnership with another party based on joint decision making and control over development. A legal entity is formed in which the council and its' partner take a share, in most cases on a 50:50 basis for risk, investment and reward. The council invests land as its equity investment which is matched by the partner with cash, and debt financing is used to deliver the rest of the funds needed for development. When development is done, returns are distributed to the partners as profits after debt finance is paid off. Joint ventures are complex and require a longer and more expensive procurement process to establish than the other routes considered. They are generally only attractive at large scale of 500 homes or more and as such this route is unlikely to be attractive to the market at Blackshots. They also require, as with the Development Agreement route, a viable scheme.
- 3.24 The Business Case document, which is structured in line with the general principles of HM Treasury Green Book considers the following factors at length:
- Strategic control of development
 - Speed of delivery
 - Market Interest
 - Risk
 - Governance
 - Council resource and expertise
- 3.25 It concludes that the self-delivery approach is the route that responds best to the council's parameters and best meets the requirements and aspirations. Although this carries significant cost risk, the market interest will be limited for the other options and this route gives speed of delivery and an enhanced level of control. It also enables certainty of delivery of affordable housing in the numbers required.

Procurement of main contractor

- 3.26 Having established that the self-delivery route is the best way forward the Business Case document considers whether the council should continue to undertake the role of development manager and in due course construction manager to the project. This is the role that the council has taken to date with the in-house team managing a multi -disciplinary team of technical consultants. The council could continue down this route but once planning was achieved does not really have the resources or skills to progress detailed designs and construction packages and this would undoubtedly require the procurement of further additional extra resources. It would also mean that the council continued to bear all cost risk throughout the contract, and it is likely to lead to a more expensive scheme. On the positive side, it would allow for immediate continued momentum once internal governance approvals were received.
- 3.27 However, the alternative and recommended option is to procure a main contractor, in this instance to support the planning process and thereafter deliver the construction contract. The contractor will take the lead in preparing the design and development proposals for planning, employing the design and technical consultants. Once planning is secured the Contractor can then move into the construction works, although the council does have the ability to reprocur post planning if problems became evident.

- 3.28 This route should secure cost efficiencies during the design stage, with efficient designs and value engineering securing greater value for money. The use of the contractors established supply chain should further enhance this. It also encourages a higher level of certainty that this is a market friendly scheme which a contractor will be prepared to deliver. After due consideration this is the preferred route which in addition brings in early resource to assist the council.
- 3.29 An indicative timetable is shown below giving a likely timescale for the procurement process of 6 months. This is based on the use of the Restricted Procedure under the Public Contracts Regulations 2015. It is likely that the procurement would start in advance of the commencement of the regime under the Procurement Act 2023, which is scheduled, but not certain, to begin in October 2024.

	Restricted Procurement	Framework Route
Procurement Stage	Indicative date	Indicative date
Publish tender docs	26 th April 2024	N/A
SQ Return	27 th May 2024	N/A
Invite short-listed applicants to tender	7 th June 2024	26 th April 2024
Tender Return	5 th July 2024	24 th May 2024
Notification of Result	26 th July 2024	14 th June 2024
Standstill period	27 th July – 5 th Aug 2024	15 th – 24 th June 2024
Expected award	3 rd September 2024	25 th June 2024
Contract commencement	15 th Oct 2024	30 th July 2024

- 3.25 The council will investigate the use of a Framework for procurement and if this is available it may reduce the time required to 4 months. This would potentially achieve an earlier successful planning permission in March 2025, rather than in June 2025. However, the council will need to confirm that there are appropriate frameworks with pre-qualified suppliers with the necessary skills and experience, and sufficient market interest given the current market context where development has slowed due to viability challenges. While contractors are looking to secure a pipeline of orders and this procurement may be timely, further soft market testing to ascertain the most suitable route may be appropriate.

Council Resources and governance

- 3.31 The council's work to date has been carried out through a core project team responsible for driving forward the day-to-day work of the redevelopment, and this has been supplemented by the technical consultants developing the Business Case and providing project management,

programming and risk assessment services. Individual workstreams on design, planning, viability and legal matters have delivered the work and supported the overall project. A council wide steering group has met to overview progress and to provide challenge and monitoring. There have been regular meetings both formal and informal with local ward members and the Portfolio Holder has received frequent briefings on progress.

- 3.32 In future the steering group and political engagement will continue and there will continue to be a dedicated project management function led by council in house resources.
- 3.33 The council's external advice needs will change from the multi-disciplinary consultant approach taken thus far. The council will require an employers' agent to deliver a successful procurement for the main contractor, and thereafter to administer the contract including valuation and final account.
- 3.34 It is likely that the council will also appoint a Clerk of Works to provide on site quality control during construction. A Principal Designer will definitely be required to discharge the council's Health and Safety obligations.
- 3.35 Although the main contractor will be responsible for the design team, progressing the design and preparing the planning application, there is merit in retaining client- side architectural advice to monitor design quality and to assist in protecting the integrity of the designs that have been worked on with residents to date.
- 3.36 The total cost of these services is estimated at circa £700,000. A budget has been identified for this from the Housing Revenue Account Capital Programme and authority is sought to appropriately procure the necessary resources and a delegation to the Corporate Director of Adults Housing and Health in conjunction with the Cabinet Member to award the necessary contracts.

Financial Considerations

- 3.37 The financial case for the Blackshots development is being produced in the context of the wider financial challenges faced by the council and its continued operation under a s114 notice and the requirement to work alongside Commissioners.
- 3.38 The Business case document carries out no financial analysis on joint venture options as it demonstrates that the market disposal route is not viable and joint ventures need a viable scheme to proceed.

HRA route

- 3.39 Within the self -delivery option discussed above it is proposed to use HRA debt finance to fund the development cost during the build period. It is intended that the debt will be refinanced to long term Public Works Loan Board rates after the build period. The calculations assume that the council can use Right to Buy receipts on 40% of eligible expenditure in line with current regulations.
- 3.40 There is an assumed interest rate of 3.5 % from April 2026. Operational expenditure is projected to grow at an average 2% over the life of the project which is in accordance with Council projections in the Housing Revenue Account Business Plan. The rental income

projection assumes income is frozen until April 2028 and is then projected to grow at 3% per annum. This is a simple projection based on the expected growth of HRA rents.

- 3.41 Rent levels are assumed at current Local Housing Allowance rates. Future increases in Local Housing Allowances have not yet been confirmed however Government has announced that these rates will rise from April 2024. This increase will benefit scheme finances and will be considered in future viability reviews. However we are not currently recommending firm alignment to Local Housing Allowance rates to allow for future flexibility depending on events.
- 3.42 Build costs have been subject to some volatility in recent years. In this model the costs are based on prudent market based assumptions available at exempt **Appendix 1a**. They are based on comparisons with the market available to Avison Young, forecasts of projected build cost inflation and taking into account a likely start on site in 2025.
- 3.43 Total development costs are projected as £21.5m on the north site and £47m on the south.
- 3.44 The viability of the scheme through the HRA is determined if the council can make a surplus net cashflow position over the 30-year HRA Business Plan on a net present value basis.
- 3.45 Cashflow is the rental income less operating expenditure and the servicing of debt interest. The analysis excludes the residual debt at the end of the 30-year HRA Business plan period which it is assumed as under current HRA regulations will remain.
- 3.46 The council has assumed a discount rate of 3.5% and the 30-year period commences on the date of the project start. A range of sensitivity tests have been run.
- 3.47 It is important to remember that a new development may be deemed deliverable even if a negative NPV is generated as it is legitimate to take into account whether the existing stock is making a positive or negative contribution to the HRA Business Plan. Where it is making a loss, a smaller loss has a positive effect on the HRA's business plan and the council could proceed on that basis. Even if the developments are in a negative position the council could still proceed with the development if it deemed itself to have capacity within the wider HRA Business Plan, although clearly this is not a position that can be taken on a repeated basis. Given the condition of the Blackshots blocks it is certain that these are having a negative impact on the HRA.
- 3.48 The Business case is predicated on 100% affordable housing to meet the much-needed requirements for affordable housing in the Borough.
- 3.49 Avison Young have produced a base case financial model which indicates that both the North and South sites at Blackshots have a net present value which is in surplus. In the case of the north site this is by more than a NPV of £3.5m and on the south site in excess of a NPV of £7.6m. This is the benefit to the HRA over a 30 year period.
- 3.50 After practical completion, under the current assumptions there is never a period where deficit is incurred before the cashflows come into surplus. Of course, this does depend on the assumptions used.
- 3.51 Increasing the base build costs by 10% reduces the surplus on both sites but over a 30-year period the schemes are still viable. Similar results occur if normal operating costs such as

regular costs as expenditure on day to day repairs and management (OPEX) is modelled at 3% rather than 2%.

- 3.52 If rental growth only occurs at 2% from 2028 then the surplus is materially affected; roughly halved. This means that in isolation the project would remain viable, but it is true that it could become unviable if a number of these sensitivities occurred together.
- 3.53 Rental growth is an important driver of viability for the HRA. Avison Young recommend that while they have assumed LHA levels for this analysis, the council does not peg rents to LHA levels in perpetuity. This will allow flexibility for rent rises should LHA levels be frozen and adversely affect financial sustainability.
- 3.54 As interest rates remain volatile due to economic uncertainty, interest rate sensitivity has also been modelled, reflecting the scenario where interest rates remained at higher rates for a longer period at 4.95%. At this point, both sites become unviable with a break-even figure of around 4.75%. This demonstrates that the viability of the project is sensitive to interest rates, but it also indicates that the scheme can cope with interest rates 1% in excess of projected Public Works Loan Board (PWLB) rates, which the Government may require due to the councils current position under s114. However, at 4.95% there is a deficit in absolute terms and a NPV deficit of £1.9m.
- 3.55 Other sensitivities are set out in the Business case and the option of a mixed tenure approach has also been modelled. While Avison Young recommend reviewing the tenure mix during the design stage, at present it does not produce as good a position as the 100% affordable scheme and is unlikely to be as resilient to changing financial factors due to market sensitivities and the risk profile for market housing on this site.
- 3.56 The conclusion of the financial consideration of the business case is that based on the current numbers and with the assumptions set out in the Business case the scheme is viable through the self-delivery route using the HRA. Cabinet is recommended to progress based on the findings of this Business Case.

Progress on clearance

- 3.57 At the time of writing 42 flats have been emptied and tenants relocated to alternative accommodation. This amounts to 25 % of the flats and leaves 114 households in council rented accommodation still to be rehoused. This is broadly on target with completion of the clearance by March 2025.
- 3.58 Terms have been agreed for the repurchase of 11 leaseholders flats in 10 of which the legal process for repurchase is under way, leaving one further flat for which terms are yet to be agreed.

Fields in Trust

- 3.59 The area of King George's Fields within the red line for development is designated as Fields in Trust. Where such land is used for development this has to be replaced. Meetings have been held with Fields in Trust and an area of Land identified as a potential replacement within the shaded area on the plan at **Appendix 3**. Discussions are being held with the present tenant of

the land as to the terms of its release. Such land on release would be designated as Fields in Trust land, landscaped and fitted with appropriate park and play equipment. It is planned that more land will be devoted to Fields in Trust than is the case at present.

Relocation of tennis courts/MUGA

- 3.60 The financial appraisal of this scheme includes a sum for the replacement of the existing tennis courts and games area currently within the red line for development. This relocation will include an upgrade of facilities and a significant enhancement of the quality of facility available.
- 3.61 The council's leisure services have been involved in the steering group since the outset and have recently had preliminary discussions with the council's leisure provider concerning the site for relocation and potential management arrangements. It is premature to finalise this until further discussions on the council's future leisure strategy have taken place but there is both a willingness to manage the courts and to relocate them nearer the leisure centre giving benefits of increased supervision and overlooking. Further consultation with residents is also required.
- 3.62 By way of example however, Appendix 4 shows an indicative location for the courts and games area in future.

Telecommunications

- 3.63 There are a number of telecommunications masts located on the roof of the blocks, operating under various legal regimes. Advice has been taken on the implications of these and discussions will be held with the operators concerning their relocation. Appropriate legal processes will be commenced as necessary.

Next steps and Programme

- 3.64 With Cabinet's agreement of the next steps in this report the next steps will be to procure the council's advisers for the next stage and to begin preparations for procurement of the main contractor.

An indicative programme at this stage would have the following:

- | | |
|-----------------------|-------------|
| • Vacant Possession | March 2025 |
| • Planning Submission | March 2025 |
| • Contractor on Site | Autumn 2025 |
| • Contract completion | May 2028 |

4. Reasons for Recommendation

- 4.1 This report with accompanying documents and recommendations builds on the Cabinet reports of March 2023 and December 2023 and is made to seek Committee's comments on progressing the Scheme for the redevelopment of Blackshots tower blocks.**

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

- 5.1 As noted above engagement events took place with residents over the summer and they have been involved with the design of the replacement homes to date and their views taken into consideration.

Further Consultation

- 5.2 Dialogue is continuing with the residents and neighbours of the site. The Independent Tenant Adviser continues to engage with and be available to residents to increase understanding of the project and of residents' options. Further drop -in sessions have been held during January and these will continue.
- 5.3 The council is increasing its' presence on site and further information and opportunities for residents will be available.
- 5.4 Appropriate pages on the council web site are now under development.
- 5.5 When a contractor is appointed to take this project forward they will be charged with ensuring continued liaison and consultation with residents, particularly with regard to design and public realm options.

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. As the council's new plans and priorities emerge it is likely that the provision or facilitation of good quality accommodation for residents with the benefits that provides will continue to be a key priority.
- 6.2 In terms of the 'prosperity' theme the council is seeking to deliver opportunities for businesses and skills and job opportunities for all. During the construction phase of any development there will be opportunities for education, training and employment. Contractors social value offer will be considered during the procurement process.
- 6.3 The redevelopment of these properties also supports or has regard to the following policy documents which are particularly relevant to the council's efforts to meet housing need in the Borough and to improve health and well- being.
- Thurrock Council Housing Strategy 2022-2027
 - South Essex Strategic Housing Market Assessment June 2022
 - Thurrock Joint Health and Well- Being Strategy 2022-2026

7. Implications

7.1 Financial

Implications verified by: **Mike Jones**
Assistant Director for Strategic and Corporate Finance

13 February 2024

The business case considers options on delivery routes for the redevelopment of Blackshots Estate and identifies the self-delivery route via the HRA as preferred. Tenure mixes of the accommodation types to be provided were considered and 100% affordable housing was selected as the most suitable option that meets the council's objectives.

The preferred option (base case) is expected to deliver 78 property units on the North site and 180 property units on the South site. The provision on the North site represents a split of 63% (49 units) and 37% (29 units) between current affordable housing provision and additional affordable housing provision while the provision on the South site represents a split of 59% (107 units) and 41% (73 units) between current affordable housing provision and additional affordable housing provision.

This project is reliant on the Secretary of State granting Thurrock Council the permission to borrow as borrowing represents a significant part of the funding. Thurrock Council has submitted a request to the Secretary of State (DLUHC) for special dispensation to borrow from the PWLB to fund development schemes.

The business case adopts a two-prong strategy around borrowing to finance the project. It intends to undertake short-term borrowing to finance the development and once completed, to undertake long-term borrowing over at least 30 years which ensures better rates based on the estimated duration of the refinance.

The total development cost of the North site is estimated at £21,215,082 and with projected 1-4-1 Right to Buy (RtB) receipts of £3,064,469 applied on additional units leaving the net cost to be refinanced as £18,150,614. The total development cost of the South site is estimated at £47,194,808 and with projected 1-4-1 RtB receipts of £6,494,835 applied on additional units leaving the net cost to be refinanced as £40,699,973.

The surplus on the North site based on a 30-year period is estimated at £7,289,258 with NPV being £3,575,104 while the surplus on the South site based on a 30-year period is estimated at £15,700,390 with NPV being £7,669,769.

The business case relies on several assumptions that informs critical variables within the financial model.

An interest rate of 4.5% has been applied on the initial borrowing requirement for both sites development while 3.5% has been applied to the £58,850,587 to be refinanced under PWLB long term borrowing. The 4.5% reflects the short-term PWLB projected rate at the time development should commence (around June 2025) while the 3.5% reflects the PWLB projected rate at refinance on completion of development (around December 2026). Acknowledging the potential volatility of interest rates, sensitivity analysis has been undertaken and the modelling indicates the breakeven interest rate on the long-term borrowing as circa. 4.75% if NPV is used as the measure of viability.

Build cost is a variable that reflects movement in the construction market.. A sensitivity of 10% increase in cost was modelled with all other variables in the base case remaining the same and this still indicated significant surplus.

Sensitivity analysis have been undertaken to understand the impact of changes on some other variables such as: OPEX increase, rental growth freeze/stagnation.

The preferred option (base case) which is 100% affordable housing provision on both the North and South sites of Blackshots Estate appears viable subject to the assumptions / variables contained within it. Whilst volatility risks of some of the variables exists, the impact of these have been tested as part of the sensitivity analysis undertaken.

The key variables and assumptions will be continually monitored up till approval to proceed is given.

The council's five-year capital programme budget which is to be consider by Cabinet and Full Council in February and March 2024 has a budget of £70.385m earmarked against Blackshots Redevelopment.

The £700K required to fund the procurement of relevant advisers to assist the council in delivering and managing the proposed development can be funded within the HRA General Reserves as the current balance is sufficient to defray this cost. The request to drawdown on this amount will only be made at year-end subject to the HRA revenue account not being able to accommodate the cost incurred in the relevant financial year.

7.2 Legal

Implications verified by: **Godwin Mangse**
Interim Principal Lawyer Housing & Litigation – Legal Services
13.02.2024

Section 1(1) of the Localism Act 2011 introduced the “general power of competence” for local authorities, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area”. The generality of the power conferred by subsection (1) is not limited by the existence of any other power of the authority which (to any extent) overlaps the general power. Therefore, this power may be relied on to carry out the redevelopment of the Blackshots tower blocks as recommended in this report.

The Council's objectives for the redevelopment of the Blackshots tower blocks are described in this report and its main purpose is not investment within the meaning of section 12 of the Local Government Act 2003. The purpose is to provide 100% affordable housing that is viable and deliver 258 units with long-term public benefit. As such, the Council is not under an obligation to have regard to statutory guidance on the exercise of investment powers under the Local Government Act 2003.

Accordingly, Cabinet is advised that the adoption of the recommendations is within the powers of the Council.

In reaching a decision, Cabinet members should consider whether resultant expenditure (and other financial consequences) is prudent, having regard to the Council's general fiduciary duties. It must also reach a decision by reference to all relevant considerations, disregarding irrelevant ones, and be satisfied that the recommended course of action is a rational course of

action for the Council. The Report details the justification for the redevelopment of the Blackshots tower blocks including the financial implications involved.

Procurement of contractors and advisors and any subsequent contract awards should be in accordance with the Council's constitution, Procurement and Contract award procedures and relevant law.

The Council is required to have regard to the Public Sector Equality Duty (PSED) when making decisions. The PSED is set out in Section 149 of the Equality Act 2010 to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

The section below refers to the Council having undertaken a Community Equality Impact assessment and member should consider whether the proposals in the report will have a disproportionately adverse impact on any people with a particular characteristic.

7.3 Diversity and Equality

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project Monitoring Officer –
Adults, Housing and Health

6 February 2023

All information regarding Community Equality Impact Assessments can be found here: <https://intranet.thurrock.gov.uk/services/diversity-and-equality/ceia/>

A full Community Equalities Impact Assessment is attached as Appendix 5.

The approach to monitoring this is set out within the document and the document will be continually refreshed. It is likely that the next review will be in the spring of this year.

7.4 Risks

There are several operational and financial risks to note. These include:

Risk	Mitigation	Risk Rating
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Impact of Right to Buy (RTB) sales on newly constructed homes.	Discount under the Right to Buy cannot reduce the sale price below the cost of construction for the first 15 years after the building is completed	Low
Successfully achieving planning permission	Pre-application planning discussions advise that as the design develops outstanding matters for review can be dealt with as part of the in the normal planning process. A significant hurdle remains to be overcome with regard the need to demonstrate 'very special circumstances' for the use of the land within the green belt which will be the focus of the next stage on design.	Medium
Accelerating building construction industry inflation	Sensitivity of 10% increase in cost was modelled with all other variables in the base case remaining the same and this still indicated significant surplus.	Low
Risk of changes that reduce Local Housing Allowances (LHA) thereby reducing income	LHA rates have recently been increased which would increase viability which are not yet factored into the business plan.	Low
Increasing borrowing rates from the Public Works Loan Board	Sensitivity testing has been undertaken which demonstrate the project remains viable where long term borrowing is no more than 1.25% in excess of projected rates	Medium
Government permission to borrow not achieved.	This project is reliant on the Secretary of State granting the council the permission to borrow as borrowing represents a significant part of the funding. The council has submitted a request to the Secretary of State (DLUHC) for special dispensation to borrow from the PWLB to fund development schemes.	High

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

Health Inequalities

The provision of modern fit for purpose housing, free from the problems affecting these blocks will be a step towards combatting health inequalities. This approach is consistent with the Council's Health and Well-Being Strategy 2022-2026

Crime and Disorder

Both previously, and during the consultation on the development of this business case there have been some complaints of anti-social behaviour around the estate, including the existing blocks and the interface with King George's Fields. The proposed future designs incorporate high quality design to minimise crime and anti-social behaviour. As the design progresses this will be further reinforced.

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):

- Blackshots Estate – Proposals for the Way Forward – Cabinet December 2022
- Blackshots Estate – Demolition and Redevelopment - Cabinet March 2023
- Available at <https://www.thurrock.gov.uk/committees-meetings-minutes>

9. Appendices to the report

1. & 1a Blackshots Estate Renewal – Strategic Outline Business Case – Avison Young (**Exempt**)
A public appendix 1 is attached
2. Plans of preferred option for consultation – Levitt Bernstein
3. Indicative plan of replacement tennis courts and games area
4. Plan of potential replacement Fields in Trust Land
5. Community Equalities Impact Assessment

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