

## **COUNCIL**

**17 OCTOBER 2013**

### **ADDITIONS TO THE CAPITAL PROGRAMME**

Portfolio Holder: Councillor Alan Jarrett, Finance  
Report from: Mick Hayward, Chief Finance Officer  
Author: Phil Watts, Finance Manager C&A  
Kevin Woolmer, Finance Manager BSD / RCC

#### **Summary**

This report provides details of three schemes to be added to the Council's Capital Programme.

#### **1. Budget and Policy Framework**

1.1 Additions to the Capital Programme are a matter for Council.

#### **2. Background**

2.1 The Cabinet considered three reports at its meeting on 1 October 2013, all of which included recommendations to Council to add the following schemes to the Council's Capital Programme.

#### **3. Housing Revenue Account (HRA) Development Programme**

3.1 The new "self-financing" regime for the HRA came into place on 1 April 2012. As part of the self-financing settlement the Council was given a maximum debt cap and the difference between this and our actual debt is known as "headroom".

3.2 The HRA headroom available as at April 2013 is £5.5m and this is estimated to increase by approximately £800,000 pa to £9.397m in year five of the programme (2017-18) once the annual provision for debt repayment has been taken into account and assuming no new borrowing is undertaken.

3.3 It is proposed to increase Medway's existing housing stock by using the available Headroom to finance a house building programme and to consider substantial remodelling or refurbishment of some existing properties where appropriate.

3.4 Should this proposal be approved the HRA development programme will be incorporated within the interim HRA business plan and a revised business plan will

be brought forward in February 2014 as part of the Council's budget setting exercise for the financial year 2014-15.

- 3.5 The Council is under a duty per S123 of the Local Government Act 1972 to obtain best consideration, when disposing of land or appropriating it from the general fund to the HRA.
- 3.6 The Council will be required to borrow up to the maximum headroom available to finance the HRA development programme.
- 3.7 The Chief Finance Officer will ensure all borrowing will be within the approved limit, and in accordance with the approved treasury policy statement as per Medway Council's Constitution.
- 3.8 It is intended to take forward a number of work streams over time:
- 3.9 **Develop additional housing on HRA owned garage sites**
  - 3.9.1 This would establish and deliver a development programme in the short term as the land is already HRA owned. Those sites considered having residential development potential have recently been reviewed and a site visit undertaken by officers.
  - 3.9.2 Discussions have taken place with the Housing Management Team on these sites and they are supportive of the proposals. Positive initial discussions have taken place with Development Management who are generally supportive and as a result more detailed work will be carried out on each site.
  - 3.9.3 Nine garage sites are being investigated which could have the potential to create 22 affordable homes across Gillingham, Twydall and Rainham.
  - 3.9.4 A schedule of potential sites is attached at Appendix 1.
  - 3.9.5 Way Forward: - Architects have been appointed to work up proposals and officers will carry out a full due diligence exercise, with a view to proceeding with development on sites, providing projects represent value for money.
- 3.10 **Develop housing on surplus General Fund Land**
  - 3.10.1 One site at Beatty Avenue Gillingham (which is part of the former Gillingham Community College site) has been identified as potentially suitable for approximately 30 affordable homes. A site visit has taken place with Development Management whose initial advice is that the site has development potential.
  - 3.10.2 The adjoining Will Adams Pupil Referral Unit needs to be extended and a small part of the land at Beatty Avenue will be needed to enable this to happen. The exact extent of the land is still to be agreed.
  - 3.10.3 The former Gillingham Community College closed on 31 August 2001, as a result Legal Services has confirmed that the Council is beyond the time limits for the need to obtain Department For Education consent to change the use of the land.
  - 3.10.4 Way Forward: - Architects have been appointed to work up proposals and officers are carrying out a full due diligence exercise with a view of proceeding with

development, providing the project represents value for money. The land would need to be transferred from the general fund at an appropriate figure.

### **3.11 The acquisition of development sites and or land and build package arrangements with contractors/developers**

3.11.1 This area of activity has the potential of bringing new homes forward fairly quickly, albeit the land will have to be purchased and be more expensive than developing on just HRA land. However as the amount of readily developable land that the HRA controls is limited this option must be available if new affordable homes are to be provided.

3.11.2 Way Forward: - Officers will continue to investigate a number of opportunities that have been brought directly to the Council and will carry out due diligence exercise to ascertain if any are suitable to bring forward for development.

### **3.12 Remodel homes for independent living**

3.12.1 Medway HRA owns eight homes for independent living providing approximately 286 flats.

3.12.2 Following an earlier desktop exercise reviewing demand for and repair cost of the Council's homes for independent living, four schemes were identified for further investigation. These are Marlborough House, Longford Court, Brennan House and Esmonde House.

3.12.3 A consultant was instructed to carry out an options appraisal in respect of Marlborough House and has subsequently been instructed to carry out option appraisals for the other three schemes identified above.

3.12.4 Way Forward: - Once the consultants have completed the option appraisals and officers carried out a due diligence exercise a recommendation will be initially discussed with the Portfolio Holder before bringing any report forward to Cabinet.

### **3.13 Proposed Programme**

3.13.1 An indicative programme has been set out below in respect of the work streams that will be coming forward in the short term namely the development of housing on HRA and General Fund Land and the purchase of former right to buy property.

- August– October 2013: Gain Council approval to build new HRA properties.
- August 2013: Development related consultants appointed: Architect and Employers Agent.
- August–September 2013: Scheme feasibilities and site surveys carried out.
- September – October 2013: Pre-application meetings
- October – November 2013: Design development.
- October – November 2013: Employers requirements completed.
- October – November 2013: Gateway 1 Invitation to go to tender
- November – December 2013: Planning applications submitted.
- December 2013: Gateway 2 Tender sign off.
- February – March 2014: Gateway 3 Approval to let building contract.
- April –May 2014: Build contract let.
- April –December 2015: Schemes completed.

### **3.14 Governance Arrangements**

- 3.14.1 The Project Manager will report progress to the Directorate Management Team and Officer Project Board for onwards transmission to the Members Project Advisory Group. In addition to which regular reports will be submitted to the HRA Development Board as part of the overall HRA Development Programme.
- 3.14.2 Individual development proposals will be submitted to Cabinet for approval in due course.
- 3.14.3 The Business Support Overview and Scrutiny Committee considered the report on 19 September 2013 and recommended the Cabinet to recommend Full Council to approve the addition of a £5.5m housing development programme to the Council's Capital Programme funded by utilising the £5.5m borrowing Headroom available to the Housing Revenue Account. The committee also requested that officers report back on the process of consulting with local residents and on future work streams of the programme as they are progressed, in particular, the remodelling of homes for independent living.
- 3.14.4 The Cabinet considered the report on 1 October 2013 and recommended to Full Council to approve the addition of a £5.5m housing development programme to the Council's Capital Programme funded by utilising the £5.5m borrowing Headroom available to the HRA.

### **3.15 Consultation**

- 3.15.1 Discussions and consultation will take place in respect of the garage and Beatty Avenue projects with Ward Members, tenants groups and local residents once proposals have been worked up. The HRA Development Board will provide guidance on the consultation.
- 3.15.2 Should the HRA Development Board decide to move forward with proposals to remodel homes for independent living, working with tenants and involving them in the design process will be critical to the success of the project.

## **4. Strood Community Hub**

- 4.1 The current service provision is split over two sites. Strood Library is currently located at Bryant Road in a primarily residential area. The Strood Contact Point is currently located on a site accessed via an alleyway off Strood High Street near the bridge over the River Medway.
- 4.2 The proposed service provision will bring these two services under one roof at 133 High Street, Strood on the former site of a bed retailer and next door to Lloyds Bank. This proposal is part of the Council's Strategy to establish community hubs throughout Medway.
- 4.3 The scheme has a variety of benefits for the community:
- A new Medway Council community hub - providing a convenient gateway to council services and a brand new library – to open in Strood High Street in early 2015.
  - The children's area within the hub will gain space.
  - Same number of books in the new community hub as in current library.

- The community hub will provide a focal point for the High Street, increasing footfall to help local businesses. It will be easier for residents using public transport than the current library and contact point locations.
- The major investment will improve a currently dilapidated shop and improve the street-scene.
- The new community hub is part of the council's broader work to ensure Strood benefits from regeneration – other work includes environmental improvements, an expansion of Strood leisure centre and improvements to Strood station.
- The existing community hall at Strood Library, Bryant Road will remain open as an important community venue.

4.4 Council is requested to add £1,000,000 to the 2014/2015 Capital Programme to cover this procurement. This will be funded by £300,000 set aside at budget setting and a further £700,000 from the earmarked reserve established by the urgency action reported elsewhere on this agenda.

4.5 The Cabinet considered a Gateway 1 Procurement Commencement report on 1 October 2013 which provided detailed information on the procurement process for the refurbishment and fit out of 133 High Street.

4.6 The Cabinet agreed the following:

4.6.1 The Cabinet approved this Gateway 1 report for progression to Gateway 2 of the procurement process and invited tenders for the building works as set out in the preferred option (paragraph 4.1 of the Cabinet report), utilising the KCC select list of approved contractors.

4.6.2 The Cabinet agreed to delegate authority to the Assistant Director Legal and Corporate Services, in consultation with the Portfolio Holder for Finance, to enter into a lease and any related legal agreements of suitable premises in Strood for a new Community Hub on the best terms reasonably available, subject to: any necessary and satisfactory planning consents being obtained and subject to vacant possession and Full Council approval of the scheme as an addition to the Capital Programme.

4.6.3 The Cabinet recommended that Full Council approve the addition of £1 million to the Capital Programme to fund the refurbishment and fit-out costs.

## **5. Solar Photovoltaic Energy Systems**

5.1 Solar PV (Photovoltaic) energy generation is a proven technology, which converts energy from the sun into useable electrical energy.

5.2 Since 2010, the government has encouraged the installation of small-scale electricity generation through a subsidy known as the feed-in tariff. This guarantees a payment to small renewable installations, which reduce carbon emissions and pressure on the national grid by generating electricity. A payment of around 12p is made for each kilowatt hour (kWh) of electricity produced regardless of whether or not the electricity is used by the generator or exported to the grid.

5.3 It is proposed to install a 30kW peak power (kWp) scheme at the Medway tunnel and a 108kWp scheme at Gun Wharf. It is anticipated all the energy generated by both systems will be used on site and offset an element of current supply requirements and costs.

- 5.4 The annual costs of electricity at the two sites are £450,000 at Gun Wharf and £170,000 at Medway Tunnel. The arrays of solar panels at these key Council buildings will generate a total of around 130,000 kWh of electricity with a financial benefit to the Council of £27,500 per annum comprising of energy savings and feed-in tariffs. The payback of the scheme is in the region of 10-years and the net saving over a 20-year period will be in the region of £350,000 based on current energy prices. The capital cost of the installations is estimated to be £230,000, which if approved will be funded through prudential borrowing.
- 5.5 The installation of Solar PV will reduce the Council's consumption of electricity from the grid and will also reduce carbon dioxide emissions by approximately 70 tonnes per annum.
- 5.6 There is not a suitable existing budget available for the installation of Solar PV. Furthermore, the Salix energy loan company do not currently offer funding for solar projects because they do not take into account any income from the feed-in tariff. It is therefore proposed the scheme is funded through prudential borrowing.
- 5.7 The estimated income generation and savings are set out in the table below.

	<b>Medway Tunnel</b>	<b>Gun Wharf</b>	<b>Totals</b>
Estimated Capital Cost	£57,500	£172,500	£230,000
Output (kWp)	29.25	108	137.25
Estimated Annual Forecast (kWh)	28,667	103,000	131,667
Generation Tariff (feed-in tariff p/kWh)	12.57	11.1	
Generation Income	£3,603	£11,433	£15,036
Current Annual Daytime Consumption	730,000	2,000,000	2,730,000
Estimate of Consumption Saving (kWh)	28,667	103,000	131,667
Price (p/kWh)	9.5	10	
Value of Consumption Saving	£2,723	£9,785	£12,508
Total 1st year benefit	£6,326	£21,218	£27,544
Cost of borrowing (over 15 yrs)	£5,403	£16,209	£21,612
Estimated Annual Saving	£923	£5,009	£5,932
Net saving over 20 years*	£45,482	£181,221	£226,703

- 5.8 The relevant directorates have been consulted and no objections have been received.
- 5.9 The Cabinet considered the report on 1 October 2013 and agreed the following:
- 5.9.1 The Cabinet recommended that Full Council approve a funding envelope for the scheme by adding £230,000 to the capital programme.
- 5.9.2 The Cabinet delegated authority to the Assistant Director of Legal and Corporate Services, in consultation with the Portfolio Holder for Finance, to enter into the necessary feed-in tariff contractual arrangements and procure the installation of Solar Photovoltaic systems at Gun Wharf and Medway Tunnel using prudential

borrowing on the best terms reasonably obtainable, subject to Full Council first agreeing to amend the capital programme to fund the scheme as set out in paragraph 8.1.1 of the (Cabinet) report.

## 6. Advice and analysis

6.1 This is set out in the body of the report.

## 7. Risk management (Housing Development Programme/Strood Community Hub and Solar Photovoltaic Energy Systems)

Risk	Description	Action to avoid or mitigate risk	Risk rating
<b>Housing Revenue development Programme</b>			
Financial	Inclusion in capital programme not agreed.	The flexibility for this spend has been made available by government and the HRA is ring-fenced for housing.	D2
Programme delays	Delays due to inefficient consultant, planning issues, internal procurement process or building contractor.	Attention to detail has been made when appointing the main consultants. Effective Project Management and programme monitoring will take place.	C2
Public Relations	Unfavourable response to the proposals from the surrounding residents and unfavourable press interest	Detailed consultation and resident engagement programme will be put in place.	C3
Quality Control	Poor quality construction not in accordance with the Council's requirements	Detailed requirements to be worked up prior to going out to tender, site inspection function built into consultants services	D2
Additional costs arise	Additional costs arise during the course of the project	Efficient and effective project Management and programme monitoring will take place. The build contract will be let on a design and build fixed priced basis.	D2

Political	Programme currently enjoys political support but Members may not support individual projects	Detailed consultation with Ward Members	D1
<b>Strood Community Hub</b>			
Procurement process	Council decision making process affects programme, resulting in programme delays and cost increases.	Projects are planned with Procurement and Cabinet dates in mind to minimise delays	D2
Contractual delivery	Failure of contractor to deliver contractual arrangements.	Inclusion of contract monitoring procedures within the contract documents. Default clauses are part of the contract documentation	E3
Service delivery	Lack of specified performance.	A detailed specification with key milestones and performance indicators.	E3
Reputation / political	Negative publicity as a result of poor communication	Project specific communications plan has been developed.	C3
Health & Safety	Construction works in close proximity to general public resulting in disruption, injury or worse.	Contractor to provide clear & concise H&S procedures, with close liaison with the library. CDM Co-Coordinator to review measures taken.	D1
Equalities	Disabled parking may not be available at rear of property.	Property team working on getting parking included as a condition of signing the lease.	C2
Sustainability / Environmental	Asbestos could be found on site due to being an older building.	Asbestos survey will be done on site. Risk cost will be allowed for rectification.	C3
Legal	Lease of property not agreed in time to start works.	Negotiation is on-going to ensure the best lease result and for site to include sufficient parking space.	C2
Financial	Possibility of unforeseen costs identified.	Detailed investigative work prior to the tendering of works undertaken to highlight any issues.	D2



Other/ICT	ICT access is not available at the site.	Money allocated in budget to install ICT equipment on site.	D2
<b>Solar Photovoltaic Energy Systems</b>			
Change of feed-in tariff	Over recent years government has reduced the feed-in tariff. At first sharply, but recently by smaller increments	Keep abreast of changes to tariffs and seek contractual commitment as soon as practical.	D2
Energy performance of building	Buildings with poor energy ratings receive a lower feed-in tariff.	Ensure overall energy performance of building is improved and that the best rate of feed-in tariff is achievable.	D2
Planning	The proposal does not benefit from permitted development rights and an application for planning permission is refused	Early engagement with the development control team.	C2

## 8. Consultation

8.1 This is set out in the body of the report.

## 9. Financial and legal implications

9.1 These are set out in the body of the report.

## 10. Recommendations

- 10.1 Council is asked to approve the addition of a £5.5m Housing Development Programme to the Council's Capital Programme funded by utilising the £5.5m borrowing Headroom available to the Housing Revenue Account.
- 10.2 Council is asked approve the addition of £1 million to the Capital Programme to fund the refurbishment and fit-out costs of the Strood Community Hub.
- 10.3 Council is asked to approve a funding envelope for the Solar Photovoltaic Energy Systems scheme by adding £230,000 to the capital programme

### Lead officer contact

Phil Watts, Finance Manager C&A, Gun Wharf, Tel. (01634) 331196.  
e-mail [phil.watts@medway.gov.uk](mailto:phil.watts@medway.gov.uk) .gov.uk

Kevin Woolmer, Finance Manager BSD/RCC, Gun Wharf, Tel (01634) 332151  
e.mail [kevin.woolmer@medway.gov.uk](mailto:kevin.woolmer@medway.gov.uk)

## **Background papers**

Housing Revenue Account Capital and Revenue Budget 2013/14

<http://democracy.medway.gov.uk/mglIssueHistoryHome.aspx?IId=9730>

Cultural Strategy 2009-2014

Medway Libraries Outreach and Partnership Development Plan 2012-2013

Cabinet 1 October 2013 for reports and decisions:

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=2761&Ver=4>

HRA Development - Garage site  
Schedule

Appendix 1

Address	Area	Ward	Numbers	Type
Westerham Close (inc adj 15)	Twydall	Twydall	3	B
Charing Close	Twydall	Twydall	1	H
Beechings Way	Twydall	Twydall	3	H
Eastcourt Lane	Twydall	Twydall	1	H
Begonia Ave	Twydall	Twydall	3	H
Romany Rd	Twydall	Twydall	4	B/H
Tangmere Close	Gillingham	Gillingham Nth	4	H
Buttermere Close	Gillingham	Gillingham Nth	2	H
Hazlemere Drive	Gillingham	Gillingham Nth	1	H
			22	

Key

B - Bungalow  
H - House