

Viability Report

Proposed Extra Care scheme comprising 60 dwellings on the site of the former St Martin's care home and St Martin's House, Queen Street, Gillingham SP8 4DZ

COMMERCIAL IN CONFIDENCE

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1.0 Executive Summary

This Viability Assessment has been prepared to support the planning application for a proposed Extra Care Scheme on the site of the former St Martin's care home and St Martin's House, Queen Street, Gillingham, Dorset SP8 4DZ for Magna Housing Limited.

The Site is an irregularly-shaped plot of 0.70 hectares on the east side of Queen Street and St. Martin's Square. The topography of the Site is sloping with the landscape dropping away to the east, down to Shreen Water, which flows south, along the east boundary of the Site. The site is now vacant, with the former care home and St Martin's house now demolished, and situated within the historic centre of Gillingham, approximately 0.5 miles north of Gillingham rail station.

The proposed development is for the construction of 60no. 1&2 bedroom extra care units with associated communal facilities across a 3 storey building.

We have appraised the following scheme:

- 48no. one-bedroom units ranging in size between 48.9m² and 56.8m²;
- 12no. two-bedroom units 60.4m²;
- Communal and recreational facilities, with the majority located to the ground floor and the remainder integrated within the accommodation on each of the levels above;
- Staff and operational facilities;
- Outdoor facilities include a communal courtyard area; and
- 31 car parking bays are to be provided to the south and south east of the building.

In May 2019, Kenn Scaddan Associates Ltd Architects were appointed by Magna Housing Limited to review the original proposal, the comments received and site context against the backdrop of local and national policy and to develop a new approach for the site.

Planning Application 2/2018/1437/FUL 'Erect extra care residential building comprising 59 No. residential units, shared communal areas and ancillary facilities. Modify vehicular accesses, form pedestrian accesses, parking, servicing, courtyard and landscaping, carry out associated works', was submitted to North Dorset by WYG 10th October 2018 on behalf of Magna Housing Ltd.

Once submitted, application 2/2018/1437/FUL was subject to scrutiny through the statutory consultation process, where key stakeholders were afforded the opportunity to review the information contained within the proposal and make comment on its acceptability against the backdrop of local/national policy and legislation.

During the consultation period, a number of consultees were in a position to offer conditional support for the scheme, however there were concerns raised by others which have impacted on the deliverability of the original proposal. These include;

An objection from the Conservation Officer on the grounds that 'The scheme fails to relate to the special character and appearance of the location and so does not contribute a development that

respects the immediate scale, massing, form, and detailing that safeguards the immediate heritage assets. The proposed design neither preserves and enhances or reinforces the local distinctiveness as required via the NPPF but instead contributes an overly dominant and imposing massing that is completely out of context with the setting and visually compares with the historic focal buildings in the street and contributes less than substantial harm to the neighbouring listed buildings contrary to the NP and HE Conservation Principles.'

The Environment Agency, who have requested a site-specific assessment of flood risk and that hydraulic modelling be undertaken to refine the Flood Zones including climate change. The detailed FRA will need to assess the impact of climate change for 30%, 40% and 85% uplift in peak flows across the design events.

Dorset County Council Flood Risk Management Team have placed a Holding Objection pending further clarification and additional details in respect of the proposed scheme for surface water management.

Gillingham Town Council have raised a number of concerns including – The proposal being out of scale with its surroundings - Poor relationship with neighbouring properties - The size and scale will have an overbearing, overshadowing and damaging effect on the neighbouring properties. - Dominant and over-bearing and will result in a development which will be visually damaging to the adjacent Conservation Area and the neighbouring listed buildings. - The proposed development is conditional on the loss of St Martin's House which is a non-designated Heritage Asset included in the Gillingham Neighbourhood Plan (adopted July 2018).

In July 2019, Kenn Scaddan Associates Limited submitted a substantially redesigned proposal for the site that sought to address the comments noted above. During the latest consultation process it has been accepted that the revised approach has dealt with the majority of concerns which initially prevented the scheme from progressing, notably receiving support from Gillingham Town Council and providing a robust strategy for dealing with the surface water runoff and response to The Environment Agency request for additional flood modelling. However, whilst most of the technical issues have been addressed through the re-design, there remains an objection from the Conservation Officer and Historic England. It is the view of the applicant that to address these concerns sufficiently to allow these objections to be removed would undermine the financial viability of this scheme and prevent the development of much needed Extra Care housing on this site.

2.0 Extra Care Housing need in Dorset

(Extracts from a report to (then) Dorset County Council December 2018.)

The Council is strongly committed to helping people to live well with as much independence as possible. One of the ways we will deliver this is the Building Better Lives which is dedicated to developing the right kind of accommodation for people with care and support needs – including older people and other vulnerable people living in the community. The work brings together a range of local partners to work with health and social care, to focus on what is important in that area.

One of the first projects carried out was an assessment of social care accommodation need across the whole county of Dorset, which considered projected population growth and existing service provision to determine the quantity and type of new accommodation-based services needed in each area of Dorset.

Extra Care Housing for older people is an important part of meeting demand. Extra Care housing offers high quality, affordable accommodation for people to live in, designed around the needs of older people and with the right support and technology available in their home. The higher levels of accessibility and security allow some older people both with and without social care needs to enjoy a better quality of life than they otherwise would in mainstream housing or in residential care services. It is an important part of the Council's strategy to enable people to continue living in their own home for as long as they can.

North Dorset is identified as an area of Dorset in need of significant development of new services and social care accommodation for several reasons:

- Because of predicted increases in elderly population, further exacerbated by the significant proposed developments in Gillingham (1,800 new homes) and Shaftesbury (1,100 new homes). For people aged 65 and over, the population in Gillingham and surrounding wards is expected to increase by 47% between 2011 and 2035. For people aged 65 and over with Dementia, this percentage increase is 80.6%.
- Because of a current lack of services in the area – the closest Extra Care scheme is Trailway Court in Blandford, which is 16.4 miles away. Extra Care housing offers an alternative to traditional residential care home services, and recent analysis predicts a shortfall of 192 Care Home places in Gillingham by 2025 due to a combination of population increase and aging Care Home stock in the town.

The demand analysis DCC have carried out shows a need for over 450 new units of Extra Care accommodation in North Dorset over the next 10 years, which is a very challenging figure to achieve.

The St Martins site is ideally suited to the creation of a new Extra Care housing scheme, being in close walking proximity to Gillingham High Street, and local amenities such as supermarkets and GP surgeries. Availability of a development site in such an advantageous location is a rare occurrence, and the opportunity to use this site to provide a minimum of 54 purpose-built affordable apartments with support for older people in a location that can maximise independence and continued engagement with town centre community life should not be passed up.

3.0 Site Disposal

(At a Dorset County Council Cabinet meeting held on the 7th June 2017 there was Approval to dispose of the former St. Martin's Extra Care Home site, Gillingham at an undervalue so that it can be developed for an extra care scheme, using the County Council's general powers of competence.)

(Section 3.5 of page 6 from the Quarterly Asset Management Report goes sets out the case for this –) An update on this site was brought to the Cabinet in June 2016 which set out the principle of disposing of the site for extra care housing. The provision of more extra care housing is one of the key aspirations of the County Council and the current Asset Management Plan states 'The County Council will work with partners to develop funding models which make the development of extra care housing possible. It will consider making both land and/or capital funding available for such schemes'.

The update in June 2016 advised that due to funding issues and the requirement placed on Registered Providers (RP) by Government to reduce rents, it has not been possible to develop a viable extra care scheme on the site in Gillingham. However, it stated that discussions were progressing with an RP who was willing to progress the scheme using, in part, its own reserves. Whilst it has taken longer than hoped to take matters forward, the RP – Magna Housing – has now put forward a proposal to acquire the site and develop 54-unit extra care scheme in accordance with a brief set down by the County Council.

It has put forward an offer to acquire the site for the sum of £500,000. Whilst that is a fair offer for such use, the County Council had previously received an unsolicited offer from a retirement home provider (this sector of the market tends to offer the highest land values for the best sites) in the sum of £1,100,000. Therefore, if the County Council is minded to proceed with the sale of this site to Magna Housing it would need to sue its general powers of competence to dispose of the site at an undervalue.

The 2016 report detailed the benefits of promoting extra care accommodation. The financial business case and model for this was set out in the Extra Care Strategy which was previously adopted by Cabinet. To re-iterate, Extra Care housing is a cost-effective alternative to residential care. In East Sussex, early in 2012, after the completion of one extra care scheme in each Borough and District, commissioners commissioned an independent evaluation of extra care housing. The most significant finding was that when assessing where residents in the scheme would live if they were not living in extra care housing, 63% were judged as needing residential or nursing care. Given the average cost of a residential care placement to the County Council of £688 per week, if this scheme keeps just 17 people out of County Council funded residential care for one year, the County Council will have generated payback on this undervalue through revenue savings.

The Cabinet was previously minded to ratify use of the County Council's general powers of competence to enable the disposal of the Queen Street site at an undervalue, although at that stage it could not be defined as to how much the undervalue would be. This has now been clarified as being £600,000. Therefore, it is recommended that the Cabinet approves the use of the County Council's general powers of competence to dispose of the whole site situated at Queen Street, Gillingham to Magna Housing at a price of £500,000 (which constitutes an undervalue of £600,000) and otherwise on terms to be agreed by the Director of Environment and Economy (Recommendation (iv)).

4.0 Current Financial Climate

The economic downturn had serious implications for people planning new extra care housing. In particular:

- In many areas, local authority investment on the revenue side of extra care reduced
- It became harder to find public capital funds to develop social extra care housing
- Lower income residents and potential residents have expressed their concerns about affordability and the contributions they have to make to rents, service charges and care costs

Until quite recently, extra care housing developments benefited from relatively stable and continuous streams of public revenue. The latter was usually delivered via block contracts from local authorities that funded the support and care services received by residents. The situation now is very different. Under 'personalisation', person-centred social care, the introduction of personal budgets based on social care assessments of individual's needs and FACS (Fair Access to Care) criteria, and new assessment arrangements under the Care Act 2014, have affected revenue arrangements. The expectation that individuals should contribute if possible to the costs of background care and support services (over and above the cost of individual care plans) has also had an impact and some people choose not to or cannot afford to pay.

Since extra care schemes have larger space standards and communal facilities not found in 'conventional' apartment developments, this extra cost is reflected in their prices or rents, meaning that potential occupants have to be able to raise a larger sum than they would were they to move elsewhere.

Financial pressures initially indicated that an extra care development required an absolute minimum of 40 units to be economically viable. However, with the move towards person-centred care and cap on service charges, evidence suggests that this figure now stands at around 55 units for a scheme to maintain the level of communal facilities required within the extra care environment and to remain financially viable.

5.0 Construction Issues

There are a number of construction issues and challenges that have impacted on the build cost/viability of the proposed scheme. Firstly, being a sloping site on the periphery of a flood plain a complex and costly piled foundation design approach and underbuild is required. Whilst this has been significantly improved through the redesign, this is still noted as an abnormality against the build budget.

In order to provide a high quality and sustainable living environment for future residents, Magna have focused on a 'fabric first' approach to design, investing more capital in the insulation and airtightness of the external envelope of the building. This will reduce heat loss and potentially result in lower utility bills to residents. To further improve the sustainability of the scheme a combined heat and power (CHP) system will be installed to provide heating throughout the scheme.

Electricity will also be generated as a by-product which will be fed back into the communal supply, helping to reduce the overall costs in use.

The proposed sustainable credentials of the scheme are noted as an impairment against the build cost, however their inclusion will offer significant benefit to the residents through lower running costs within a thermally efficient and comfortable environment, whilst not being dependant on 'bolt-on' technologies which have a shorter shelf life and will thus require ongoing maintenance and replacement.

The design approach represents a fine balance between delivering a much needed economically sustainable extra care facility in Gillingham within a cost effective and efficient layout responding to its context in sympathetic manner. The revised scheme offers considerable cost savings over the previous iteration by rationalising the internal layout and removing excessive circulation space. This has effectively reduced the building footprint and avoided a stepped foundation design which would have added further expense to this project.

Through consultation with the Conservation Officer it has been suggested that a suitable way to overcome their current objection and move forward would be to reduce the bulk of the building that fronts St Martin's Square and Queen Street, possibly by removing the top storey in this location and relocating these units elsewhere within the development or omitting them altogether.

The site is heavily constrained with a foul sewer easement to the rear and the need to provide a significant buffer from neighbouring dwellings around the perimeter of the building. This precludes inclusion of extra units as an addition to the current footprint. An alternative approach could be to increase the height of the building at the rear to accommodate these units. However as the building is currently 3 storeys throughout and, with the elevated floor level (underbuild) at the rear required to avoid the flood datum, the rear of the building would sit at 4 ½ storeys above ground level and appear more overbearing than in its current form. Furthermore, to increase the building locally to accommodate these units, the circulation cores, communal facilities and M&E provision would need to be extended. This will add considerable additional cost to the project and further reduce the viability of delivering this scheme.

6.0 Project Costs

Land Cost -	£500,000.00
(note; DCC Justification to sell site at undervalue noted above. This provides an economic benefit to the tax payer and NOT Magna. This benefit to Dorset County Council is set out in the Cabinet approval).	
Construction Costs -	£10,981,248.00
Professional Fees (inc. LHC, interior fit out and contingency) -	£974,227.00
Interest on loan -	£124,992.00
Overall costs -	£12,580,467.00

Magna, because of the clear needs identified and the social benefit of this scheme, is prepared to invest and deliver this 60-unit extra care scheme. The key losses Magna will incur are set out below. Magna can do this as we are a not for profit housing association committed to helping people meet their housing needs.

Magna are investing **£12.58 million** in the land, design, construction and on-costs to deliver this scheme. The proposed extra care facility has an open market value of **£11.0 million**, this represents a **£1.56m impairment** in Magna's accounts (the cost of the scheme verses the value).

Magna will take forward a £5.72m debt to be funded through rent, which will be affordable rents in line with Magna's rent setting policy.

7.0 Financial Appraisal

Extract of data from our ProVal scheme appraisal software

ProVal file name / reference	North Dorset / St Martins / Current Appraisal / St Martins 300919 less LA grant		
Development Manager	Paul Read	Assumption Ref / Date	
Local Authority	North Dorset	SAP 26/04/2018	
Number of Units, Tenure and number of Bedrooms/People	No of units	Tenure	Beds / People
	44	Rented	1/2
	4	Rented	2/3
	4	SO	1/2
	8	SO	2/3
Total Units	60		
Estimated completion Date	Nov-21		
	Per Unit Rented	Per Unit Shared Ownership	Total
Gross Cost	204,026	232,268	12,580,467
Grant	66,168	46,407	4,182,952
First Tranche sale	40%	79,500	954,000
Net Cost	137,858	106,361	7,443,515
			Expected OMV on completion
			11,002,500

Summary of financial Appraisal	Year 1	Year 10	Year 20	Year 30
£ per unit				
Gross Rent	273,190	360,501	475,726	639,336
Net Rent (Operating surplus)	251,375	308,303	379,326	560,224
Cashflow	0	0	0	77,404
Interest	258,498	231,693	149,773	9,146
Capital Repayment (Loan Repayment)	1,205,375	599,034	379,326	482,820
Capital Outstanding (Closing Loan)	5,722,637	5,100,286	3,483,642	0

8.0 Conclusion

Extra Care is desperately needed in Gillingham. The model of Extra Care that Dorset Council needs, to support the demographic they need to care for, is as proposed within the latest scheme. This much needed facility could not be realised in Gillingham unless delivered through the public sector heavily subsidising it. The scheme (based on a 60-unit model) makes a loss of £1.56m before any costs of sales or additional costs that a private sector developer may incur to address their market niche.

To address the conservation concerns by reducing the number of units, whilst providing a marginal overall build cost saving, will ultimately reduce the level of rent that the scheme will generate, leading to a longer payback period. In addition, with the cap on service charges, the level of accommodation will not be able to sustain the required level of communal facilities and would fall short of providing the level of 'support' that extra care should deliver.

Similarly, as previously discussed, should the scheme be redesigned to accommodate the removed bulk from the front façade within an additional storey, the additional associated costs of increasing the lift and stair cores, extra circulation and length of M&E runs, irrespective of any potential planning pitfalls, will result in an increase in build cost that will extend the payback period well beyond 30 years.

This viability assessment demonstrates the need for extra care in this location and that the optimum number, to remain 'sustainable', is 60-units. As evidenced through the ProVal appraisal and project costs, even with considerable grant funding that has been identified for this scheme and rent forecasted, Magna Housing Limited would need to fund a £1.73 million shortfall through their own resources to meet a 30 year payback and, as such, the scheme could already be termed 'unviable'. However, as a not for profit housing association, Magna are committed to helping people meet their housing need. If the viability of the scheme is tested further, either by the loss of units or increase in build cost, then Magna will be unable to bring this much needed scheme forward as the increased financial commitment will prevent the housing association from meeting housing needs elsewhere.
