



**COUNCIL CABINET**  
**14 December 2010**

**ITEM 11**

Report of the Strategic Director of Adults,  
Health and Housing

**New Build Housing Phase 2- St David's Close**

**SUMMARY**

- 1.1 The Homes and Communities Agency (HCA) has recently asked for additional small scale affordable housing schemes to be submitted for grant funding as its residual funding settlement for 2010/11 has become clearer.
- 1.2 As a result of this we have a good opportunity to secure some much needed external funds for affordable housing in the city. The St. David's Close site in Littleover is deemed a high priority site from previous planning work undertaken.
- 1.3 Our partner for this project, Bramall Construction, following dialogue with officers has reduced the original estimated build costs by utilising an off site manufacturing process. The resulting reduced build and scheme costs means that the grant requirement now falls within acceptable limits on a per unit rate basis for the Council and the HCA.
- 1.4 The revised scheme will provide 6 brand new, modern 2 bedroom flats for affordable rent on a disused garage site at St. David's Close, Littleover.
- 1.5 As with the previous Council new build scheme, the Council will need to resource approximately 50% of the scheme through the use of HRA reserves.
- 1.6 These Council new build properties will be outside the HRA subsidy system, but within the HRA and therefore subject to the Right to Buy (RTB). All the properties will be let at rent levels in line with the HCA's affordable target rent structure.

**RECOMMENDATIONS**

- 2.1 That Cabinet authorises the submission of a bid to the HCA with a view to securing sufficient grant funding to enable the housing scheme outlined in this report.
- 2.2 That subject to the bid for funding being successful, Cabinet delegates authority to the Director of Legal and Democratic Services, in consultation with the Strategic Director of Resources to sign the necessary agreements with the HCA to enable the draw down of the grant funding. That Cabinet authorises the Council to utilise £300k from the HRA reserves amounting to £50k per unit, to be permitted for this purpose. Risk to the Council has been minimised in this arrangement as the Council has full control of the proposed new build dwellings.

- 2.3 That Cabinet recommend the inclusion of this project in the capital programme at £600k, funded by £300k of HCA grant and £300k of HRA reserves.

### **REASON FOR RECOMMENDATIONS**

- 3.1 Grant funding of £300k will be required to enable the proposed housing scheme to proceed.
- 3.2 The legal guarantees are required to enable the grant funding to be drawn down.
- 3.3 The use of HRA reserves is a fundamental assumption within the submitted bid.

### **SUPPORTING INFORMATION**

- 4.1 Recently, the HCA has asked for additional small scale affordable housing schemes to be submitted for grant funding as its residual funding settlement for 2010/11 has become clearer.
- 4.2 As a result, Bramall Construction was asked to revisit the site at St. David's Close, which was the priority in an earlier round of bidding and has managed to reduce the build costs by utilising off site manufacturing processes. Reduced build and scheme costs means that the grant requirement now falls within acceptable per unit rates.
- 4.3 Derby City Council will own the properties and Derby Homes will manage these homes on behalf of the Council. The management of new housing by Derby Homes will help to strengthen its position following considerable stock losses through the Right to Buy (RTB) and demolition programmes. The long term impact of such losses without replacement could see a reduction in Derby Homes to a level where current levels of local services cannot be maintained. The replacement of new stock enables continued economies of scale and maintenance of a level of income to help carry on with three star services across the whole city.
- 4.4 Councils have, in theory, always been able to build new homes. The issue has been the financial disincentive due to the system of calculating HRA housing subsidy. Previously, every additional home provided by this Council would have reduced the subsidy we received by £1,200 a year (£23 per week). This is one of the main factors that has effectively prevented new build Council homes. The Government's announcement that new build properties will now be able to be accounted for outside the HRA subsidy system has removed this significant disincentive.

### **OTHER OPTIONS CONSIDERED**

- 5.1 The Council has for a number of years worked successfully with a range of development partners; including more recently Derby Homes, to provide affordable housing in the city.

5.2 The Council could determine not to progress this scheme which would result in 6 fewer units of affordable accommodation within the city.

This report has been approved by the following officers:

Legal Officer	Comments received from Olu Idowu on 08 <sup>th</sup> November
Financial Officer	Comments received from David Enticott on 5 <sup>th</sup> November
Human Resources Officer	None
Service Director	Report approved by Mark Menzies
Others	None

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<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications

**IMPLICATIONS****Financial**

- 1.1 The scheme is to be funded in 3 ways – by the Council making available its land on which to build the properties, by a grant from HCA £300k and the use of HRA reserves of £300k. The development shall remain in Council ownership.
- 1.2 All rents will be set at the Government's formula or target rent calculated for rent restructuring. These rents are within the Local Housing Allowance limits and can be met by housing benefit. From year 5 an amount for a sinking fund will also be deducted from the gross rent to provide a fund to pay for long-term major repairs and refurbishment (component replacement).
- 1.3 The scheme has been appraised using a bespoke modelling tool developed specifically for such schemes and approved by the HCA.
- 1.4 The model produces an annual cash flow statement over a 45 year assumed business plan period. Overall the cash flow is positive with surpluses being made in later years. In some of the earlier years cash flow is negative and the excess cost will need to be met by previously accumulated surpluses for this scheme and the general reserves of the HRA. Any future call on general HRA reserves can be repaid from future surpluses forecast to be made. The remaining surpluses can be used to develop further schemes or used for further refurbishment works. In practice, if more schemes are developed, it is likely that some will be in surplus and others in deficit at the same time – surpluses from some schemes can be used to meet the deficits of other schemes – this cross-subsidisation is the basis for business planning that is used by RSLs. Meanwhile the risk will be met by the general reserves of the HRA.
- 1.5 The scheme will be accounted for fully within the HRA, but must be kept separate from the other properties in the HRA as under the latest Government proposals these properties will be outside the HRA subsidy system. This means that the Council will retain the full rent to finance management and maintenance costs and any capital receipts should the properties be sold.

**Legal**

- 2.1 There will be a need to conclude a formal development agreement between the Council and our development partner Bramalls, so as to secure the development of the sites in accordance with the agreed scheme.
- 2.2 The HCA has produced a draft of the grant funding agreement which it will require the Council to enter into. The HCA will require the Council to formally guarantee the performance of the terms and conditions of the funding agreement.
- 2.3 Other legal implications are as set out in the main body of the report.

## **Personnel**

3.1 None directly arising from this report

## **Equalities impact**

4.1 The provision of additional affordable housing will help meet the needs of all groups, including minority ethnic communities, general needs and older people.

## **Health and Safety**

5.1 None Specific

## **Carbon commitment**

6.1 The development shall benefit from reduced Co<sup>2</sup> emissions as it is being built to Code for Sustainable Homes Level 4. This is a higher sustainability standard than the current benchmark for affordable housing which is set at Level 3 and significantly higher than current statutory building regulations required of newly built private market housing.

## **Value for Money**

7.1 The development provides excellent value for money for the city's taxpayer as 50% of the development costs are being funded through national funds.

## **Corporate priorities**

8.1 HC4: To deliver accessible, high quality, inclusive Housing and Advice services. Increasing the number of affordable homes delivered.