

Council New Build

SUMMARY

- 1.1 In July 2007 the Government published its housing green paper, 'Homes for the Future: More Affordable, More Sustainable' which included increased targets for the provision of affordable housing. In order to meet these increased output goals the then Housing Corporation, now succeeded by the Homes and Communities Agency, HCA, decided to work with a larger and more diverse range of delivery partners, including for the first time local authorities – through 3*Arms Length Management Organisations.
- 1.2 Following a qualification process last year, Derby Homes were approved as Investment Partners and also Accredited Management agents. A subsequent bid to the Housing Corporation for grant funding was successful, enabling the development of 43 homes, 10 of which are to be retained by Derby Homes with the remainder being sold by Strata Homes the development partner.
- 1.3 In April this year, the Government announced a £100M national pot to enable Local Authorities to bid in their own right for funding to build new Council Houses. On the 30 June 2009, the HCA announced that this pot was to be increased to £450M. This funding will provide some 50% of the required subsidy whilst the remaining 50% will be met through prudential borrowing by the Council supported through the rental income of the new properties.
- 1.4 Council new build properties would be outside the HRA subsidy system, but within the HRA and therefore subject to the Right to Buy, RTB.
- 1.5 The Council has invited development proposal submissions from potential development partners for two Council owned sites at Elton Road, Osmaston and Cowsley Road Chaddesden. Keepmoat have subsequently been selected as the development partner for the two sites. The proposal at Elton Road would involve the construction of 10 flats and 15 houses, whilst the proposal at Cowsley Road would involve the construction of 8 houses. All the properties would be let at rent levels in line with the HCA's affordable target rents.

RECOMMENDATION

- 2.1 That the Cabinet authorises the submission of a bid to the HCA with a view to securing sufficient grant funding to enable the housing schemes outlined in paragraph 1.5 to be developed.
- 2.2 That subject to the bid for funding being successful, Cabinet delegates authority to the Corporate Director for Corporate and Adult Services and Deputy Chief Executive to sign the necessary agreements with the HCA to enable the draw down of the grant funding.
- 2.3 That Cabinet recommends to Council that additional prudential borrowing of £1,650,000 - £50,000 per unit, be undertaken for this purpose, and that it is lent subject to conditions requiring full repayment in the event of the housing no longer being available for social housing in the future.

REASON FOR RECOMMENDATIONS

- 3.1 Grant funding of £1,650,000 is required to enable the proposed housing schemes to proceed.
- 3.2 The legal guarantees are required to enable the grant funding to be drawn down.
- 3.3 The prudential borrowing is a fundamental assumption within the submitted bid.

SUPPORTING INFORMATION

- 4.1 In July 2007 the Government published its housing green paper, 'Homes for the Future: More Affordable, More Sustainable' which included increased targets for the provision of affordable housing. In order to meet these increased output goals the then Housing Corporation decided to work with a larger and more diverse range of delivery partners, including for the first time local authorities – through 3*Arms Length Management Organisations.
- 4.2 Following a qualification process last year, Derby Homes was approved as an Investment Partner and also Accredited Management agents. A subsequent bid to the Housing Corporation for grant funding was successful, enabling the development of 43 homes, 10 of which are to be retained by Derby Homes with the remainder being sold by Strata Homes the development partner.
- 4.3 In 2007, the Housing Corporation ran a pre-qualification process to assess and approve these new entrants against the following requirements: good standing, the technical capacity to deliver development projects and the financial capacity to handle significant values of grant. As a result of this process Derby Homes were approved as an Investment Partner for the 2008-11 Housing Corporation bid round.

- 4.4 At the same time Derby Homes were approved under the Housing Corporation Housing Management Accreditation Scheme. As a result it is able to manage properties now funded by the HCA but owned by other providers, such as in this case - the Council.
- 4.5 The Government announced the Local Authority new build programme in May 2009 with a first bidding round deadline of 31 July 2009 together with a second bidding round which closes on 30 October 2009. This is an extremely tight timescale but if Members are minded to support these proposals, it is envisaged that a bid will be submitted by the 31 July deadline. The HCA will give preference to those schemes that can commence during the current financial year and require all schemes to be completed on site by March 2011. The Local Authority new build programme is a ring fenced pot which is being allocated on a national basis and is therefore outside of the regional 'single conversation' allocations.
- 4.6 The Council will now be required to pre-qualify as a HCA investment partner in its own right, although the necessary pre-qualification questionnaire submission can be submitted at the same time as the bid for funding. As it is intended that Derby Homes will manage these new properties on behalf of the Council, it is not necessary for the Council to seek additional Housing Management accreditation.
- 4.7 The Council, through Derby Homes established framework agreement, has invited development proposal submissions from potential development partners for two Council owned sites at Elton Road, Osmaston and Cowsley Road Chaddesden. Keepmoat has subsequently been selected as the development partner for the two sites. The proposal at Elton Road would involve the construction of 10 flats and 15 houses, whilst the proposal at Cowsley Road would involve the construction of 8 houses.
- 4.8 All the properties would be let at rent levels in line with the HCA's affordable target rents. The construction of 25 affordable rented properties at one location at Elton Road would not accord with the Council's Supplementary Planning Document which seeks to 'pepper pot' affordable housing amongst shared ownership and private sale properties. Members will however be well aware of the extremely weak housing market that currently exists at both a national and local level. This bidding round will only support the construction of local authority affordable rented properties and will not provide financial support for an element of shared ownership or outright sale. Whilst sale properties could be included within the scheme these would need to be self financing and would therefore introduce a significant level of risk into the proposal particularly given the HCA requires all properties to be completed by March 2011.
- 4.9 In addition, this is seen as an extremely timely opportunity to demonstrate to residents, particularly in the Osmaston area, what can be achieved in terms of good design and contemporary internal specification standards. A consistent comment throughout the current Osmaston Masterplanning consultations has been that residents want to see action on the ground rather than just listen to theoretical suggestions and proposals. It is envisaged that a number of these new properties could be held vacant for a period of time after construction to act as show homes for existing and potential new residents. These Show Homes would demonstrate not only the high standards that can be achieved through well designed new build, but also enable residents to suggest future design improvements that might be adopted

on later phases of development of the Masterplan. Discussions with potential development partners indicate that such a 'quick win' will not be possible through private sector development in the current climate.

- 4.10 It is considered that on balance the following benefits outweigh the Council's normal requirements for 'pepper potting';
- a) The provision of 25 additional affordable homes at a time when the Council faces unprecedented pressures on its social housing stock
 - b) The opportunity to provide a 'quick win' within Osmaston, building confidence within the area and creating a number of 'show homes' to demonstrate what can be achieved in the area
 - c) The provision of a mix of affordable homes house types which do not currently exist in Osmaston enabling young single people and couples together with larger families to remain in their local area
 - d) The construction of new homes at a time when little alternative development is taking place, maintaining construction skills within the City and specifically providing training and employment opportunities for local residents.
- 4.11 The issue of pepper potting will be a matter for Planning Committee to consider, but informal advice from planning officers suggest that these proposals are likely to be acceptable particularly given the benefits outlined in paragraph 4.10 above
- 4.12 Tenure diversification is nevertheless clearly important within the Osmaston area in order to achieve a sustainable mix of new development. It is considered that there will be ample opportunity to achieve this as the considerable land holdings currently held by Rolls Royce are brought forward. In addition, it is envisaged that the Glossop Street site should also become available in due course. Indeed, part of the Glossop Street site is directly opposite the proposed new build area.
- 4.13 The new homes would be managed by Derby Homes which is better placed than other management organisations to understand the issues facing the Osmaston area. Members may also consider it appropriate that Derby Homes have the opportunity to manage the new homes going onto both of these sites which have become available through the demolition of Council Homes.
- 4.14 The management of new housing by Derby Homes would 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 3* services across the whole city.
- 4.15 Councils have, in theory, been able to still build new homes themselves. The problem has been that the financial system, in particular the system of calculating HRA housing subsidy has worked against that outcome. Previously, every additional home provided by this Council would have reduced the subsidy we received by £760 a year (£15 a week). This is one of the main factors that has effectively prevented new build Council homes. The Government's recent announcement that new build properties will be able to be accounted for outside the HRA subsidy system has removed this significant disincentive.

- 4.16 Council new build is based on a simpler model than the ALMO model, which is likely to require the establishment of a subsidiary company in order to protect its current VAT and non-trading company status thus protecting any surpluses from Corporation tax. The ALMO model also requires the signing of a rent charge in addition to the Grant agreement which places conditions on the future use of the property that if ever implemented would be extremely disadvantageous to the Council. The ALMO model of new build is one that the Council may still wish to consider in the future. It allows access to other pots of funding, not currently directly available to Councils and properties will be let on assured tenancies and therefore not subject to RTB but to Right to Acquire which has a less attractive discount regime than RTB.
- 4.17 Development does inevitably carry risks, in this case revolving around the possibility of cost increases that were not anticipated and/or there being unforeseen delays to the development programme. It is considered however that the avoidance of any reliance on private sale properties and the selection of a development company with a proven track record should reduce these risks to acceptable levels. Further due diligence checks will be undertaken before entering into any binding contract.

OTHER OPTIONS CONSIDERED

- 5.1 The Council has for a number of years worked successfully with a range of development partners, including now Derby Homes, to provide affordable housing in the City. All of these organisations are precluded from bidding from the Local Authority new build funding pot which has now been made available. This scheme can be seen as a pilot project to compare the outcome of Council new build with other models for development when Council owned land is utilised.

For more information contact:	Ian Fullagar Tel (01332) 255185 e-mail ian.fullagar@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 The scheme is funded in 3 ways – by the Council making available free land on which to build the properties, by a grant from HCA and by prudential borrowing – up to £1.650,000 million at 6% for 40 years.
- 1.2 The loan will be repaid from net rental income from letting the properties. Net rental income is the residual rental income remaining after providing for day to day management and maintenance costs, voids and rent arrears – all based on amounts acceptable to HCA and in line with the Council's existing costs on these items. 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 since under latest Government proposals these properties will be outside the HRA subsidy system. This means that the Council will retain in full the rent – to finance the loan repayment and 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 – Keepmoat, 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. None directly arising from this report

Equalities impact

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

Corporate priorities

5. The provision of affordable housing will help to promote the Council's priorities of **making us proud of our neighbourhoods, leading Derby towards a better environment** and **giving you excellent services and value for money**.