

## **Redevelopment of The Knoll, Village Street**

### **Purpose**

- 1.1 To update Cabinet on proposals to deliver new affordable homes on this long-vacant site.
- 1.2 To note that a scheme has been designed to deliver eighteen houses for Council rental on the site and will shortly be submitted for planning approval.
- 1.3 To seek the necessary financial and contractual approvals to deliver the scheme.

### **Recommendation(s)**

- 2.1 To approve an amended project budget as detailed in the confidential version of this report, and to note that this can be funded within the overall value of the current Housing Revenue Account capital programme.
- 2.2 To note that internal approval of the Full Business Case will be required by the Council's PMO Board before contracts for delivery are entered into.
- 2.3 To delegate authority to the Strategic Director of Communities & Place, in consultation with the Section 151 Officer and the Cabinet Member for Adults, Health & Housing, to enter into all contracts and agreements necessary to deliver the scheme within the approved budget.

### **Reason(s)**

- 3.1 To facilitate the delivery of new affordable homes to meet the high level of need in Derby, in accordance with the Council Plan and Council Delivery Plan.
- 3.2 To ensure the best value use of the Council's assets.
- 3.3 To comply with the Council's Financial Regulations and Contract Procedure Rules.

## **Supporting information**

### **The Knoll site**

- 4.1 The Knoll is a brownfield site on the corner of Stenson Road and Village Street. It is currently in Normanton ward, but will fall into Blagreaves ward following the upcoming boundary amendments. There was previously a residential home for disabled adults on the site, which was closed and demolished over ten years ago.
- 4.2 The site is surrounded by mature trees, and is heavily overgrown. Ecology surveys are taking place to avoid and mitigate any impact on wildlife, particularly protected species such as reptiles. The site has recently been used for fly tipping, drug use and anti-social behaviour, which has caused concern to neighbouring residents.
- 4.3 Cabinet has previously received reports about the redevelopment of the site, and indeed a proposed supported housing scheme did receive planning consent. This unfortunately proved to be too expensive to deliver at tender stage, and was not a good use of resources.

### **Need for affordable homes in Derby**

- 4.4 Developing new Council homes is set out as a priority in both the Council Plan 2022-25 and the Council Delivery Plan 2022-23. The Council has a 30 year business plan for its Housing Revenue Account, with an aim to build or acquire around 100 new homes per year. The main constraint to this is a shortage of suitable and available land to develop. Therefore officers continually review Council-owned properties that are under-utilised and may become surplus to requirements, to assess their potential for redevelopment.
- 4.5 As at the end of December 2022, there were over 6,000 applicants actively looking for an affordable home through Derby Homefinder. Of these, exactly 3,000 needed a 1 bed property, 2,066 needed a 2 bed property, 1,227 needed a 3 bed property, and 377 needed a 4 bed property.

### **Proposed redevelopment**

- 4.6 The proposed scheme is for 18 houses:
  - 2no 1 bedroom houses
  - 8no 2 bedroom houses
  - 2no 3 bedroom houses
  - 6no 4 bedroom houses

The larger number of 2 and 4 bedroom properties reflects their relative scarcity in the existing affordable housing supply, and that many applicants need to upsize or downsize from an existing 3 bedroom social housing property, thus releasing it back for reletting. The properties will be owned by the Council, managed by Derby Homes, and will be made available to rent through Derby Homefinder.

- 4.7 The proposed scheme is subject to planning consent, and so the exact number and type of property may vary slightly from the above. Pre-application engagement has already been carried out and no fundamental issues have been raised.

- 4.8 The project aims to achieve the Future Homes Standard. This involves a “fabric first” approach, and a reduction in operational carbon (i.e. emissions from day-to-day living) by 75-80% from the 2020 Building Regulations level. Only a small amount of electricity will be needed to heat the homes, and they will become truly “zero carbon in operation” once de-carbonisation of the electricity grid is completed in the 2030s. This reflects the commitments made in the Council’s Climate Change Action Plan. Electric vehicle charging points will be provided as standard.
- 4.9 The homes have been designed as “Category 2 – Accessible and Adaptable Dwellings” within Part M of the Building Regulations. This means that although they are not adapted from the outset for wheelchair users, they have sufficient space and design considerations to be adapted as and when required. A fire suppression misting system or sprinklers will also be included.
- 4.10 Although not protected by Tree Preservation Orders, the mature trees surrounding the site are clearly an asset and contribute to the character of the area. Subject to further survey and design development, it is proposed to fell just three trees and retain 30-40 others, although some may need to be reduced in height. Additional street trees will be planted within the development.
- 4.11 The outline timescale for the development is as follows:
- March 2023 – submit planning application
  - April 2023 – seek Cabinet approvals, subject to planning and Full Business Case
  - May 2023 – commence procurement process for main contractor (package of sites)
  - July 2023 – planning consent issued
  - August 2023 – present Full Business Case to PMO Board
  - September 2023 – formally appoint contractor
  - November 2023 – commence works on site
  - June 2025 – practical completion of development and handover to Derby Homes
  - June 2026 – end of defect liability period; project closure

## **Public/stakeholder engagement**

- 5.1 Derby Homes will have responsibility for managing and maintaining the properties on behalf of the Council. Colleagues from both the Housing Management and Property sections have been consulted since the start of the project, and will remain closely engaged during the development phase.
- 5.2 Details of the proposals have been shared with the councillors for both Normanton and Blagreaves wards. Councillors are aware that they can contact the project team to raise any questions or concerns on behalf of residents.

- 5.3 Residents immediately neighbouring the site have been informed of the proposals by letter, and an information session is planned for residents at Normanton Lodge, the sheltered housing scheme adjoining the site. The scheme has been designed to minimise any impact on the privacy and amenity of existing homes. Neighbouring residents, and any other interested parties, will be able to comment on the proposals through the statutory planning process.

## **Other options**

- 6.1 Do nothing. This option can be rejected as a poor use of a Council asset, and a missed opportunity to deliver on the Council's priority to build affordable homes.
- 6.2 Dispose of the site for commercial development. It is assumed the site would be unattractive for development of employment uses, given its limited highway frontage, and the constraints imposed by trees, neighbouring properties, and potential issues around traffic generation.
- 6.3 Dispose of the site for residential development. Although the location may be attractive for a private developer, we can assume they would not build out the scheme designed by the Council, which aims to balance density with quality of life. They would be likely to design a scheme of fewer dwellings on larger plots, which would not incur a section 106 affordable housing contribution. Any capital receipt from sale of the site would be retained in the Housing Revenue Account. This would be of limited value; as explained at 4.4, the factor limiting delivery of new homes is a shortage of available land, not a shortage of capital.
- 6.4 Develop the site in partnership with a Registered Provider or other party. Although the Council does have valuable partnerships with other Registered Providers of Social Housing (i.e. housing associations), this site can contribute to the strategic aim to deliver more Council housing and, as funding is available in-house, there is no particular benefit to a partnering route.

## **Financial and value for money issues**

### **Capital**

- 7.1 The forecast capital cost of redeveloping the site is detailed in the confidential version of the report. It has been excluded from the public version in order not to weaken the Council's commercial position when tendering the project. The proposed budget includes a significant contingency amount due to the ongoing volatility of prices and the construction market, in the context of wider economic uncertainty. It also includes a risk allowance in respect of the long retaining wall to the Stenson Road boundary, which is to be inspected by a structural engineer to confirm whether any works are required.

- 7.2 This budget requirement is higher than the existing approved budget because:
- a) The built footprint has increased compared to the previous design
  - b) This project aims to achieve higher standards of energy efficiency
  - c) Construction costs in general have risen over the last two years
- 7.3 In terms of funding, 40% of the project cost can be funded from Right to Buy receipts. These receipts must be spent on replacement affordable homes within five years or must be paid to the Government. The remaining 60% is modelled to be funded from the Housing Revenue Account (HRA) and can be contained within the current capital programme.
- 7.4 A bid has been submitted to the Brownfield Land Release Fund 2 in respect of this site which, if successful, could bring in grant of up to £0.367m. This would be used in addition to the Right to Buy receipts, and would reduce the funding requirement from the HRA.
- 7.5 In terms of value for money, the current cost estimates are higher per square metre than a commercial housing scheme. This reflects the need to create a new access road, the aims to achieve both national space standards and more accessible and adaptable properties, and the Council's ambitions to achieve high standards of efficiency and minimise carbon. The scheme will be competitively tendered later in 2023/24 as part of a package of sites, in order to seek economies of scale from contractors and assure best value.
- 7.6 The housing scheme would be funded from the Housing Revenue Account, which is a legally separate ringfenced account.
- 7.7 The completed homes will be protected from any financial loss from subsequent Right to Buy applications by the cost floor rules, meaning that the property cannot be sold for less than the value of the cumulative total spend for 15 years from the date of completion.
- 7.8 Following completion of the homes, an application will be submitted to the Department for Levelling Up, Housing and Communities (DLUHC) for exemption from the pooling agreement on use of capital receipts to provide replacement homes. This would allow the Council to retain 100% of the capital receipt (after discount) if it is sold under Right to Buy (RTB). This minimises the financial loss to the Council that could result from RTB sales.

## **Revenue**

- 7.9 The project's Outline Business Case has been reviewed and approved and will be further refined into a Full Business Case as costs become more certain.

Assuming borrowing over a 50-year period at 4.35% interest and making the agreed assumptions on annual rent increases and cost increases per the HRA Business Plan, the scheme would achieve a cumulative revenue surplus by year 33, and would have generated a surplus greater than the outstanding debt by year 40, showing that the development would be viable.

- 7.1 The principal financial risks to the project are:

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- Continued inflation in construction costs
- Weaker than forecast growth in private sector rents (because starting rents will be set at 80% of market rent)
- Poor response to tender for main contractor
- Potential for contractor failure, in the context of recession and falling house prices
- Potential need for works to the retaining wall, which may add cost and extend the programme

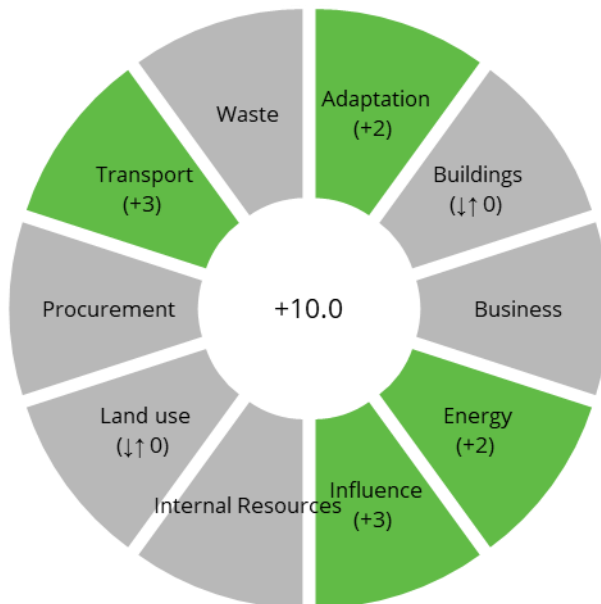
Mitigation is in place for these risks at outline stage. All risks will be reviewed in detail at Full Business Case stage before a final decision is made to proceed.

## **Legal implications**

- 8.1 None arising from the proposal but as it develops through to maturity, timely access to internal and external legal advice and support is acknowledged, particularly regarding procurement and contracts.
- 8.2 The informal pedestrian access enjoyed by residents of Normanton Lodge will be temporarily closed during the development period. The Council is within its rights as landowner to do this, as there is no right of way shown on the Definitive Map, and the Council asserts that no public right of way exists.

## **Climate implications**

- 9.1 A Climate Change Impact Assessment of the proposal has been carried out.



- 9.2 The project scores positively for Energy and Buildings because we aim to build to the Future Homes Standard. This will significantly reduce operational carbon emissions over the lifetime of the development, compared to current Building Regulations standards of efficiency. We also aim to include photo-voltaic panels so low carbon energy can be generated *in situ* (except on properties that will be shaded by the mature trees being retained). Excess PV energy can potentially be stored by use of batteries, or modern hot water cylinders, subject to detailed design.
- 9.3 The project also scores positively for Transport because it is in a sustainable location, with schools, health services, supermarkets and parks all within easy walking distance. It sits on the junction of two bus routes, which will make it easy to use public transport and avoid reliance on the private car. EV charging points will be included as standard.
- 9.4 However these positives are offset to some degree by the embodied carbon in the construction. No detailed construction strategy has yet been developed. We will explore lower carbon alternatives where possible, but the limited financial headroom within the business case means it is likely the development will use conventional materials to a large extent. The environmental impact of the development will be considered as part of the Full Business Case, at which stage we will be able to make estimates of the carbon quantities involved.

## Socio-Economic implications

- 10.1 The purpose of developing new Council homes is to provide secure, affordable and high quality homes for people whose housing needs may not be met by the private market. Some of the people on the housing register are among the most disadvantaged in the city, and the proposed use of the land effectively targets support towards these people.

## Other significant implications

- 11.1 Covered in the report.

This report has been approved by the following people:

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>	Olu Idowu	13 March 2023
<b>Finance</b>	Amanda Fletcher	6 March 2023
<b>Service Director(s)</b>	David Fletcher	16 March 2023
<b>Report sponsor</b>		
<b>Other(s)</b>		

<b>Background papers:</b>
<b>List of appendices:</b>