



Report sponsor: Shiraz Khan, Cabinet Member for Housing, Property and Regulatory Services.
Samantha Dennis, Strategic Director of Place.

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Principal Housing Development Manager

Proposed Purchase and Redevelopment of a Site in Derby to Provide Affordable Homes

Purpose

- 1.1 This report seeks approval for the addition of a scheme to the Capital programme for the purchase and subsequent redevelopment of a site in the Abbey Ward of Derby to provide accommodation, which will initially be used to discharge our homelessness duties and subsequently for those on Homefinder.
- 1.2 To secure authority to enter into a grant agreement for grant funding allocated by the Department of Levelling Up, Housing and Communities (DLUHC) to Derby from the Local Authority Housing Fund Round 2.
- 1.3 These homes would form part of the Council housing stock and would be managed by Derby Homes (DH), the Council Arm's Length Management Organisation (ALMO).
- 1.4 To seek the necessary financial and contractual approvals to deliver the accommodation.

Recommendation(s)

- 2.1 To agree the principle of purchasing and redeveloping the site as detailed in the Confidential version of the report, funded either through the Housing Revenue Account (HRA) or the General Fund (GF).
- 2.2 To approve the addition to the capital programme of a scheme for the purchase and redevelopment of the site as profiled in the project plan subject to the below delegations and utilising the funding streams as set out within the report.
- 2.3 To delegate authority to the Strategic Director of Place, in consultation with the Section 151 Officer and the Cabinet Member for Housing, Property and Regulatory Services, to determine whether the property should be held and funded by the HRA or the GF.
- 2.4 To delegate authority to the Director of Finance (Section 151 Officer), following consultation with the Strategic Director of Communities and Place and the Cabinet Member for Housing, Property and Regulatory services, to agree the final funding streams to be used to deliver the scheme.

- 2.5 To delegate authority to the Strategic Director of Place in consultation with the Director of Finance and Section 151 Officer and the Cabinet Member for Housing, Property and Regulatory Services, to agree the terms to enable the Council to enter into all contracts and agreements necessary to deliver the project within the approved budget.
- 2.6 To delegate authority to the Director of Finance and S151 Officer, following consultation with the Cabinet Member for Housing, Property and Regulatory services, to enter into the LAHF funding agreement, subject to acceptable grant conditions.
- 2.7 To agree to the property being incorporated within the Council's housing stock and being managed and maintained by Derby Homes.
- 2.8 To recommend approval at Full Council to approve the additional unsupported corporate borrowing for the purchase and refurbishment of the site.

Reason(s)

- 3.1 To facilitate the delivery of new accommodation to meet the high level of need in Derby, in line with the Council plan and Council Delivery Plan expectations helping to alleviate the current high use of B&B accommodation for families.
- 3.2 To ensure the best value use of an available asset allowing us to provide much needed accommodation in Derby.
- 3.3 To comply with the Council's Financial Regulations and Contract Procedure Rules.

Supporting information

- 4.1 Derby City faces unprecedented pressures in terms of homelessness approaches, the average length of time that households are staying in temporary accommodation and a severe lack of affordable housing for households in general housing need. This is happening nationally with councils across the county reporting the same situation.
- 4.2 As a result, we have households living too long in unsatisfactory housing conditions and in many cases, children living in highly inappropriate Bed and Breakfast (B&B) accommodation with all of the associated risks to their health, well-being and general life chances. This type of accommodation lacks in suitable cooking facilities, space is shared so limited privacy or room to concentrate on school work, restricts social interaction with peers and can be a cause of embarrassment. These families are living too long in unsuitable temporary accommodation before they can be provided with a permanent home.
- 4.3 Developing and acquiring new affordable Council homes is set out as a priority in both the Council Plan 2022-25 and the Council Delivery Plan 2023-24. The Council has a 30-year business plan for its HRA, with an aim to build or acquire an average of 100 new homes per year for the next 5 years of the plan and 86 homes per year thereafter. The main constraint to the delivery of these additional homes, is a shortage of suitable and available land to develop. Therefore, officers continually review available assets that offer an opportunity for potential for redevelopment.

- 4.4 As at 31st December 2023 there were 10,022 applicants registered for social housing through Homefinder and between 1st April 2023 to 31st December 2023 there were 1849 homeless approaches. As of 31st December 2023, there were 170 families in bed and breakfast or other overnight accommodation. There were a further 55 single people in bed and breakfast accommodation.
- 4.5 The site is currently vacant and in private ownership, consisting of x49 multi roomed flats over 16 blocks with another property adjacent which was used for offices and communal space.
- 4.6 Negotiations have been undertaken and an offer by the Council has been agreed for a freehold purchase. The offer was subject to Cabinet approval of the project. An external red book valuation has been carried out. The property offers enhanced benefits to the Council when compared to purchasing individual properties from the open market including but not limited to:
- This purchase will reduce B&B need quicker than single purchases.
 - This property can be utilized quickly to alleviate B&B use.
 - Saving on B&B costs which will offset refurbishment costs.
 - Families would not have to be split in different B&B`s.
 - An on-site management presence will improve customer services.
 - Meeting demand with a controllable programme.
 - A single purchase, as opposed to buying multiple properties, will reduce the time and resources required to individually identify, inspect, value, negotiate, appraise, undertake conveyance, and then schedule and undertake works .
 - Individual property purchases can be subject to possible vandalism whilst waiting for refurbishment – refurbishment cannot be undertaken with the tenant in situ.
 - The relative early letting, will reduce void time and council tax cost - a single property void period will incur Council tax.
 - Suitable single properties are not always available, and the supply is not constant.
 - Single legal fee for this purchase.
 - A single property averages a 15-week purchase period and then a refurbishment period – this is one purchase and not multiple.
 - Communal parking available within the site.
 - Potential energy solutions can be applied across the site to reduce energy bills.
 - The amount of work can be value engineered if required.
 - Material commonality will help reduce on going costs through bulk purchase.
 - The proposal will partially address the significant HB subsidy pressure.

There are also benefits to the families who will have access to suitable cooking facilities, privacy, space to concentrate on school work, ability to socially interact with peers in their home, removal of stigma and an address which can be used for banking, claims and other correspondence.

- 4.7 The property can be quickly brought into use to help alleviate the use of B&B and other overnight accommodation. This will reduce the weekly amount the Council has to pay for each family in this type of accommodation. The cost of accommodation is funded by the Council but can be offset by housing benefit claimed back from the Department of Work and Pensions (DWP). Where accommodation is used that is not owned by the Council, there is a cap as to how much housing benefit subsidy the Council can claim. This model not only relieves financial pressure on the Council, but also delivers significant improved outcomes for individuals and families.
- 4.8 Once purchased x15 blocks, would be brought into temporary use for those families currently accommodated in B&B or other overnight accommodation. The vacant block will be held for a scheme of refurbishment and conversion and when complete families would be moved in vacating further blocks. This will allow a rolling programme of works across the site which, when completed, will provide a total of x96 flats providing a mix of 2, 3, 5 and 6 bedroom flats.
- 4.9 The site has potential capacity for further new build to be undertaken to provide more accommodation although this has not been included at this time. Any future plans would be subject to further appropriate approvals.
- 4.10 The current financial model allows for the adjacent property to be disposed of in year 3 due to its limited suitability for conversion to provide affordable accommodation. This receipt would be used to support the works cost for the project.
- 4.11 The homes will be owned by the Council, managed and maintained by Derby Homes and will be made available to rent for those families in housing need, initially for those currently in B&B or overnight accommodation, and in the future through the Council's choice-based lettings system (Homefinder). It is likely that a change in the use of the property in the way proposed i.e. from homelessness use to general needs housing, may be subject to Secretary of State approval and, should that be necessary, for necessary debt adjustments between the HRA and GF.
- 4.12 The site sits within a sustainable urban location, as it has easy access to the city centre and public transport, as well as nearby amenities including primary and secondary schools. Costs have been included as the planning contribution towards Education to ease additional pressures by the redevelopment.
- 4.13 The property currently has a planning use designation of Sui Generis. Sui Generis is used for a property that does not fall into any other planning use class. A planning Change of Use application will be required to change this to C3 (dwelling houses). Pre application advice has been sought and the proposed use change is considered satisfactory subject to the planning process.

- 4.14 The refurbishment and conversion works will include, but is not limited to the following:
- New windows and doors where required
 - Thermal upgrading to walls and roofs
 - New heating and hot water systems
 - Fire safety improvements
 - New kitchens and bathrooms
 - New internal doors
 - Improvements to communal stairwells
 - Full redecoration
 - New access security system
 - External repairs/replacement to roofs, fascia's, soffit's and guttering
 - New individual property metering and service infrastructure
- 4.15 The refurbishment and conversion work will be managed and carried out by Derby Homes. If alternative or additional resource is required, an external contractor will be procured by competitive tender through an approved compliant framework.
- 4.16 The anticipated outline timescale for the x15 blocks to be brought into initial use is for August 2024. The rolling programme of refurbishment and conversion work would commence on the vacant block between January and March 2025 and would be undertaken over a period of up to 3 years. A more detailed programme will be developed and opportunities for earlier delivery of the completed project explored.
- 4.17 The decision on whether the property is held in the HRA or the GF is complex and depends on factors that compete against each other, hence recommendation 2.3. This decision will be supported by further information being provided relating to rental income, service charge, subsidy loss, viability, financial benefits of where the property is held, grant terms and legislative restrictions.

Public/stakeholder engagement

- 5.1 Derby Homes will have responsibility for managing and maintaining the homes on behalf of the Council. Colleagues from both the Housing Management and Property sections at Derby Homes are intrinsic members of the project team that has developed this proposal and will remain so during the delivery and construction phase.
- 5.2 The proposed project has been presented to both Senior Leadership and Cabinet Members.
- 5.3 Information about the proposal has been shared with the councillors for Abbey Ward. Councillors can contact the project team to raise questions on behalf of residents.
- 5.3 Neighbouring residents will have the opportunity to comment on the proposed planning change of use to domestic dwellings through the statutory planning process.

- 5.3 A further planning application may be required, subject to further design work, for any external alterations necessary for the refurbishment and conversion work. Neighbouring residents would also have opportunity to comment on these proposals through the statutory planning process.

Other options

- 6.1 To not purchase and redevelop the site. This option has been discounted as it does not maximise the use of an available asset with the opportunity to deliver on the Council's priority to provide affordable homes. If the site were to go to the open market, it is likely to be utilised to immediately provide "housing of multiple occupation" style accommodation for short-term letting under its current planning use rather than family homes. If it was converted to provide smaller self-contained accommodation it is unlikely that any affordable housing would be provided.
- 6.2 To develop the site in partnership with a Registered Provider (RP). Although the Council does have valuable partnerships with other RP's of social housing, this site is unlikely to be of interest due to capacity within their existing business plans and current commitments. There is, therefore, no particular benefit to a partnering route and would not fit the vendors requirement to secure a sale within a shorter timescale.
- 6.3 To identify an alternative site for purchase and remodelling. A market search has been undertaken and no other alternative suitable sites were found that offered an immediate use and delivery of an equivalent number of homes. It is unknown, if or when, a suitable alternative site would become available.
- 6.4 To purchase up to 96 individual properties across the city. This would be time intensive and whilst resource was directed at acquiring these properties it would impact delivery of general needs housing which is also in high demand. This would also not offer the immediate use of a high number of properties to alleviate use of B&B accommodation.

Financial and value for money issues

- 7.1 The decision on whether the property will be held in the HRA or the GF is recommended for delegation under paragraph 2.3, following further legal advice from Counsel. The forecast cost of the project and proposed funding is the same whether the property is held under HRA or GF, while the operating costs and income only differ by the cost of borrowing, which is lower under HRA due to the HRA being able to access a discounted borrowing rate from PWLB. The financial implications of each option are outlined in this report.

- 7.2 The forecast capital cost covers the purchase and redevelopment of the site for affordable housing, and this includes a significant contingency due to the ongoing volatility of prices in the construction market, in the context of wider economic uncertainty. An inflation factor for costs has also been allowed for as the project is delivered over 4 financial years.

Subject to resolution 2.3 and the outcome of the determination that would follow the current financial model assumes the use of Un-ringfenced RTB receipts. It also assumes utilising Local Authority Housing Fund (LAHF) grant, Hotel and Temporary Accommodation Wraparound Support Fund (HTAWSF) funding, unallocated Section 106 receipts for affordable housing and a capital receipt from the sale of the adjoined property to support the funding of this project. The disposal of the building has been allowed for in year 3 of the financial appraisal.

- 7.3 It is proposed that the scheme is added to the relevant capital programme under recommendation 2.2, following clarification of advice from Counsel and the delegated decision of the Strategic Director of Place on whether the property should be held under the HRA or GF (recommendation 2.3).
- 7.4 If the property were to be held within the GF, the PWLB borrowing rate used in the appraisal is 5.7% over a period of 40 years. Any GF borrowing is also subject to setting aside a Minimum Revenue Position (MRP). Based on the current approved financial template, the scheme does not achieve an operational breakeven throughout the appraisal period. However, as a result of this proposal, a significant saving is achieved within the GF Housing Benefit Subsidy system. Factoring in this saving the project achieves an operational surplus from year 1 and would have generated a surplus greater than the outstanding debt by year 19 despite the GF being subject to a higher rate of interest than the HRA.
- 7.5 If the property were to be held within the HRA, any saving achieved within the GF Housing Benefit Subsidy system cannot be used towards any operational loss within the HRA. However, the project would still realise the Housing Benefit Subsidy saving within the General Fund. Although the HRA can borrow 6 basis points below the GF rate, the project would not breakeven or produce an operational surplus at any point.
- 7.6 If the property is held in the HRA, it 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.
- 7.7 Whilst it is used to discharge the Council's homelessness duty, occupation will be on the basis of non-secure tenancies which means there will be no entitlement to make a Right to Buy application.
- 7.8 In January 2024, the DLUHC announced there was underspend on their LAHF grant and asked for Expressions of Interest (EOI) from local authorities who could deliver additional homes that met the criteria of the grant funding. An EOI was submitted and a subsequent grant offer of £4.3m was received. A non-binding Memorandum of Understanding (MoU) has been signed. Delegation to enter into the grant agreement for this funding to be used on this project has been included at 2.5.

- 7.9 The current cost estimates received from our architects are higher per square meter than a commercial housing project and reflect the Council's ambitions to achieve high standards of efficiency and minimise carbon. They have been benchmarked against other comparable projects.
- 7.10 If an external contractor is to be procured for the main remodelling work, the project will be competitively tendered later in 2024/25 through an existing framework. Any procurement will be compliant with the Public Contract Regulations 2015.
- 7.11 The principal financial risks to the project are:
- Delays
 - Inflation in construction costs
 - Poor response to tender for main contractor (if external contractor procured)
 - Potential for contractor failure (if external contractor procured)
 - Additional works required during construction period
 - Changes to assumptions in the funding details
 - Subsidy saving due to reduced use of B&B not achieved
 - Adjacent property does not sell or sells below the assumed value
 - Impact of further borrowing outside of budget setting process if costs increase
 - Current MTFP published gap
 - Will start at PMO gateway 3
 - Uncertainty of HRA/GF makes potential risks difficult to define

The project will follow the Council's project management framework (PMO) and go through internal gateways for assurance and before the council entered into a works contract, if an external contractor procurement route is selected. Mitigation is in place, where possible, for these risks, including a financial contingency within the costings.

Legal implications

- 8.1 An external design team will be appointed under direct awards from a compliant framework using a suite of appointment documents drafted by our external legal advisers.
- 8.2 If an external contractor is selected for the works, it is proposed to enter into a JCT Design and Build contract with the preferred contractor once the procurement process is complete. A complaint framework would be used.
- 8.3 Legal advice will also be sought on the implications of whether the property is held in the HRA or the GF. As the project progresses, timely access to internal and external legal advice and support will be required regarding procurement and contracts.

Climate implications

- 9.1 A Climate Change Impact Assessment (CIA) has been carried out, see diagram 1 below;

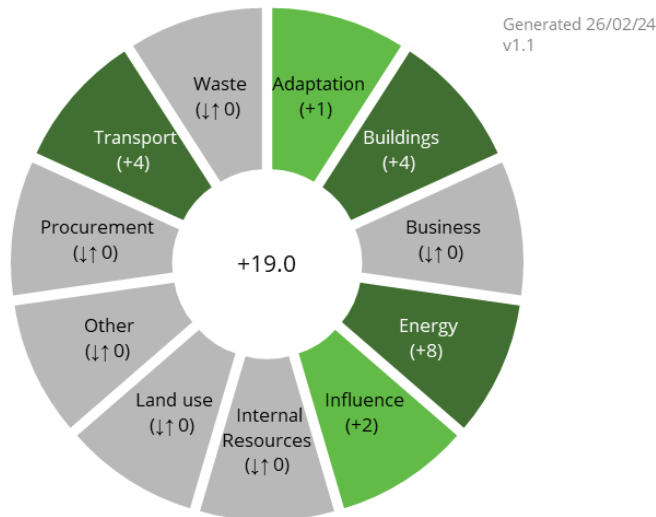


Diagram 1

- 9.2 Adaptation – due to the refurbishment works there will be new windows and thermal upgrading allowing the existing property to become resilient.
- 9.3 Buildings – the buildings that will undergo a scheme of refurbishment and conversion. This is utilising the existing buildings rather than demolition and new build which does not generate additional embodied carbon.
- 9.4 Energy - The existing gas heating will be replaced with a more sustainable heating and hot water system. Upgrading to low energy lighting will reduce energy consumption, as will a more thermally efficient fabric.
- 9.5 Influence - the aim is for active engagement with tenants to aid awareness and encourage best usage of the homes.
- 9.6 Transport - the project scores positively due to the development’s sustainable location with schools, health services, shops and parks all within walking distance as well as easy access to bus services. Electric vehicle charging points are proposed for the communal car parking areas.

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 and those who approach us as being homeless, are among the most disadvantaged in the city and the proposed use of the site and buildings, targets support towards these people.

Other significant implications

- 11.1 Covered in the report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	2 April 2024
Finance	Amanda Fletcher	2 April 2024
Service Director(s)	Charles Edwards	2 April 2024
Report Sponsors	Cllr Shiraz Khan	27 March 2024
	Samantha Dennis	28 March 2024
Other	Ian Fullagar	2 April 2024