



New Build Housing Phase 2

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 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.
- 1.3 Two opportunities were announced for Local Authorities to bid, the deadlines were 31 July and 31 October 2009.
- 1.4 The Council subsequently went through the Pre-Qualification process to be an approved Investment Partner of the Homes and Communities Agency and on 5 October 2009 was advised that it had been successful.
- 1.5 The Council submitted a bid for the first bid round which was approved and will see funding of £1.6M coming into the city which will help deliver 33 new affordable homes across 2 sites, Elton Road, Osmaston and Cowsley Road, Chaddesden. In September 2009 the HCA announced that this bid had been successful.
- 1.6 It is now proposed that a second bid be submitted. Due to the tight timescale required for the bid submission, the detailed proposals are at the time of drafting this report still being finalised. The bid will however not exceed 22 units spread over not more than 5 sites and should consist of at least a minimum of 16 units spread over 4 Sites.
- 1.7 Council new build properties would be outside the HRA subsidy system, but within the HRA and therefore subject to the Right to Buy, RTB. All the properties would be let at rent levels in line with the HCA's affordable target rents.

RECOMMENDATION

- 2.1 *Not referred to Council*
- 2.2 *Not referred to Council*
- 2.3 That Cabinet recommends to Council that additional prudential borrowing of approximately £50,000 per unit, be permitted 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. Risk to the Council has been minimised in this arrangement as the Council has full control of the proposed new build dwellings.

REASON FOR RECOMMENDATIONS

- 3.1 Grant funding of up to some £1,250,000 will be 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 The Government announced the Local Authority new build programme in May 2009 with a first bidding round deadline of 31 July 2009. The Council submitted a bid for the first bid round which was for funding of £1.6M to deliver 33 new affordable homes. At the same time, the Council submitted a pre-qualification questionnaire to enable it to become an approved development partner with the HCA.
- 4.3 In September 2009 the Council received confirmation that its first round bid had been approved and on 5 October received confirmation that the Council had successfully pre-qualified as an HCA Development partner.
- 4.4 Following these announcements, the Council has been working up a bid for the 31 October 2009 deadline. In view of this tight timescale, it has not been possible to go through a competitive process to select a development partner. The Council has therefore selected Keepmoat its development partner from the first bid round.
- 4.5 Keepmoat secured the contract to develop the Council's first scheme through a competitive process in accordance with the Derby Homes framework agreement.

This competitive process was conducted recently in June 2009 and given the expertise that Keepmoat has consequently developed in relation to the Council New Build model, it is considered an appropriate way forward for this second round. The framework agreement allows for this direct appointment of partners.

- 4.6 The HCA will give preference to those schemes that can make an early commencement and require all schemes to be completed on site by March 2011. Failure to meet this completion date would potentially result in a breach of the HCA's grant conditions. 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.
- 4.7 As Derby Homes will manage these new properties, it is not necessary for the Council to seek additional Housing Management accreditation.
- 4.8 Due to the tight timescale required for this second round bid submission, the proposals for the second round bid are still being developed at the time of drafting this report. The proposed bid will not however exceed 22 units spread over 5 sites and is likely to consist of the following mix;
- St Davids Close, California area – 9 x 2 bed apartments
 - Elmtree Ave/Oaktree Ave, Osmaston – 2 x 4 bed houses
 - Caxton St/Coleridge St, Sunnyhill – 2 x 4 bed houses
 - Peel St, Ashbourne Rd area – 3 x 2 bed apartments
 - Meath Avenue, Chaddesden – 6 x 2 bed apartments
- 4.9 The suggested mix of house types for each site have been proposed following analysis of the 2008 Strategic Housing Market Assessment and therefore will meet identified Housing need within each locality. At the time of drafting, it is not certain whether the site at Meath Avenue will be able to be included in the bid. It has legal parking access issues that need to be resolved before any development can commence. The HCA has announced that it will give a high priority to bids that can be delivered quickly and indeed that all schemes must be completed by March 2011. If it is considered that the legal issues involved with the site will prevent the rapid progress required, it will be excluded from the bid which will then be likely to consist of 16 units spread over 4 sites as listed above.
- 4.10 Council new build properties would be outside the HRA subsidy system, but within the HRA and therefore subject to the Right to Buy, RTB. The Council would receive some financial protection from the effect of RTB through the 'cost floor' formula which would prevent properties from being sold below the cost of their actual construction. To ensure the properties remained outside the HRA Subsidy system the Council would have to make an application for formal approval to exempt properties under Section 80B of the Local Government and Housing Act 1989. All the properties would be let at rent levels in line with the HCA's affordable target rents.
- 4.11 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.

- 4.12 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.
- 4.13 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 taking completion beyond March 2011. 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.

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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 £1.250,000 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.**