

Agenda Item No: 9.9 **Report No:** 97/17
Report Title: Housing Revenue Account - Housing Development Update
Report To: Cabinet **Date:** 26th June 2017
Cabinet Member: Councillor Ron Maskell, Cabinet Member for Housing
Ward(s) Affected: All
Report By: Ian Fitzpatrick, Director of Service Delivery
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Purpose of Report:

To update the Council on the existing Council programme for developing new housing through the Housing Revenue Account (HRA) and to seek approval for future stages of the programme.

Officers Recommendation(s):

- 1 To note the progress in developing 22 new affordable homes as part of the "Local Growth Fund" Project, predominantly upon former Council garage blocks.
- 2 To approve the outline proposals for refurbishment and future use of Saxonbury, Juggs Road, Lewes,
- 3 To approve an investment budget of up to £1,500,000 for the re-design and development of the HRA dwellings at Saxonbury, which will be fully recovered through the mixed-tenure sales of dwellings following the works.
- 4 To approve a budget of up to £200,000 for early feasibility work on HRA sites with residential development potential.

Reasons for Recommendations

- 1 Delivering sustainable new housing and infrastructure is a key priority within the Council Plan, and the Local Growth Fund is a key project within it.
- 2 The Council's building at Saxonbury is currently uninhabited and will require substantial work in order to make it suitable for occupation. However, the market sales of a proportion of the flats will ensure the works are cost neutral, with no resultant long-term debt against the HRA. The business case for taking a mixed tenure approach to the development is covered within this report.

- 3 The Council has a large number of sites with potential to be developed and will form part of a future capital investment programme to provide much needed homes across the District. To better understand the resources required to deliver the capital programme early feasibility work is required such as legal reports and sites surveys.

Information

Garage Site New Builds

1. The Local Growth Fund project was commenced in August 2015 with the aim of building new affordable homes for the Council to offer to households on the housing register for rent.
2. The development of 22 new Council homes was close to completion as of the end of May, and the majority are already occupied:
 - Hythe Crescent, Seaford, (2 units) – **Completed and occupied**
 - Headland Way, Peacehaven – (3 units) – **Completed and occupied**
 - Balcombe Road, Peacehaven – (6 units) – **Completed and occupied**
 - Rectory Close, Newhaven – (5 units) - **Completed**
 - Grassmere Court, Telscombe Cliffs – (6 units) - **Completion due June 17**
3. These new homes have been funded through the HRA, by using existing borrowing capacity, additional borrowing sanctioned by the Department for Communities and Local Government and also retained –‘1-4-1’ receipts from the sale of council homes under the Right to Buy.
4. There are a significant number of similar Council sites located around the District with the potential for small developments of housing which can form part of a future capital programme. However, there is limited capacity within the HRA to fund the construction of many more homes through borrowing. This is because:
 - the Government has placed a cap on the level of HRA borrowing
 - the HRA cannot afford the interest charges associated with significant additional borrowing

As a result alternative capital funding options are being explored.

Saxonbury

5. The building known as Saxonbury was built in 1891 and is located on the south edge of Lewes Town. The house was converted into 6 flats with communal bathrooms in the late 1970's and then a three-storey extension was added to the rear of the original house in 1991, to increase its use for temporary accommodation.
6. By 2015 the necessary repairs required and the poor internal facilities had made the building not fit for purpose, and 12 Council homes were identified to use as alternative temporary accommodation. The age of the original property, along with

the design of the 1970's conversion mean that Saxonbury is a complex and expensive building to refurbish. In addition pressures on the HRA have meant that a number of different scenarios have had to be worked through to ensure the sustainability of the Councils HRA Business plan over the 30 year period .

7. The following feasibility options have been assessed for the future use of the empty building, and reasons for rejecting in italics:

- a. Market sale of building in current condition
 - i. *The valuation of property is poor under current market conditions and would deliver no affordable housing.*
The independently assessed residual value, with planning uplift = £520,000, capital receipt
- b. Conversion back into one dwelling for market sale
 - i. *The valuation of a refurbished property is poor under current market conditions and the costs of works are high and would deliver no affordable housing.*
The independently assessed residual value, if LDC undertook the development risk = £850,000 capital receipt net of conversion cost
- c. Refurbished as 12 flats for market sale and 40% affordable. –
 - i. *The constraints of the existing building restrict the refurbishment, and the goal of making all flats self-contained may not be achievable.*
 - ii. *The independently assessed residual value, if LDC undertook the development risk = £600,000 capital receipt net of conversion cost*
- d. Conversion of the building into fewer than 12 flats and to sell those located in the original part of the building for market sale and the remaining as affordable shared ownership (part buy/part rent) flats. The sale of flats on the open market along with receipts from the shared ownership

Sales receipts = £1,500,000 to cover maximum conversion costs including £1,300,000 on works

Year 1 rental yields of shared ownership properties = £32,100

Capitalised Net Present Value, based upon income generated for the HRA over a 40-year period = £1,061,140

8. Option D has been selected as the best approach to bringing Saxonbury back into use as it fulfils a number of key criteria:

- Funds the high cost of conversion
- Is deliverable and brings the property back into use quickly
- Has a positive impact on the HRA business plan, delivering additional net rent income
- Allows surpluses to be re-invested in more sustainable new build affordable housing elsewhere
- Optimising the financial return on the site.

9. The final number of flats delivered and how many are sold for market sale will be dependent on architect's best re-design of the internal layout of the building and the financial viability of the scheme. However at least 50% of the delivered dwellings will be for shared ownership housing.

Future Capital Programme of Work

10. The feasibility work on Council sites for future housing development is an important stage in the capital programme as it ensures money is not wasted on sites that cannot or should not be developed. Sites that have not had early due diligence carried out such on legal checks and site surveys can end up incurring extensive costs if critical obstacles to development are not identified at an early stage. This stage includes early public consultation, informing local residents about the Council's future plans.
11. The financial cost of the feasibility work will be incorporated into the overall cost of building the homes and any borrowing required will be accounted against future income that the homes generate.

Consultation

Saxonbury

12. All stakeholders with an interest in Saxonbury will be invited to engage in the design of the new homes and engagement will be ongoing until completion of the site. The support and encouragement of the community is thought to be a key aspect of the potential success of this project.

The allocation of the Shared Ownership homes will also be considered carefully with a Local Lettings Plan in place and eligibility criteria set on the basis of local needs in consultation with the Cabinet Member of Housing.

Additional HRA Garage Sites

13. This report asks for a budget of £200,000 to explore the opportunities to develop on additional garages sites in the District. However before more extensive appraisals for sites are agreed or planning applications made the Development Delivery team will hold community engagement events in each locality. The opinions of those present will be used to inform the design of any new developments.

Legal Implications

14. A high level report on title has been produced in respect of the land at Saxonbury House. This reveals that there are no title issues stopping the conversion of the building itself. There is a deed of grant giving Southern Water Authority rights to lay, enlarge, maintain, renew etc. a water main on a route to the west of the building at Saxonbury. This does not directly impact on the proposed conversion. Whilst there are restrictive covenants affecting part of the site to the east of the building, these do not affect the conversion of the building itself. A more detailed

report on title has been commissioned, with a view to checking the results of the high level report.

15. The site is held in the HRA. Disposals of HRA land are subject to the controls set out in the Housing Act 1985. A disposal may be effected in any manner but shall not be made without the consent of the Secretary of State. Various disposal consents are given by the Secretary of State in the General Housing Consents 2013. If a proposed transaction falls outside of the terms of the general consents an application for special consent may be made to the Department of Communities & Local Government. Paragraph 3.1 of General Consent A authorises a local authority to dispose of land for consideration equal to its market value, but subject to limitations which exclude certain types of disposal from the scope of the consent.
16. The proposal set out in this report relates to conversion of the building to new flats. Those in the original part of the building will be for market sale and the remainder will be affordable shared ownership flats. Subject to the consideration being equal to market value, disposals in these terms would fall within the scope of the general consent given in paragraph 3.1 of General Consent A. The final proposals will have to be checked against the general consents to confirm that they fall within the scope of the consents. Any proposal falling outside of the terms of the general consents will require special consent from the Secretary of State.

Financial Appraisal

17. Detailed financial modelling of the preferred option for the redesign and development of Saxonbury has taken place, evaluating expected development costs, sales income and future rental streams and management costs associated with the Shared Ownership homes. This modelling indicates that the preferred option will generate an additional long-term income stream for the HRA.
18. The projected cost of developing Saxonbury is £1.5m including fees. This cost would be recouped from the receipts generated by both the sale of flats within the old building and shares in the ownership of the other units on the site.
19. With the Saxonbury development costs being incurred before the sale proceeds are realised, there will be an increase in HRA borrowing of up to £1.5m. The 'headroom' between current borrowing and the Government cap is sufficient to cover this interim borrowing requirement. Interest costs associated with the additional borrowing will be funded from the Special Projects resource held by the HRA.
20. The £200,000 cost of feasibility studies resulting in the development of HRA garage sites, can be financed from capital receipts currently held following Right to Buy sales. However, it should be noted that the cost of the feasibility study on any site which did not then progress through to development could not be financed in this way and would be charged to the Special Projects resource.

Risk Management Implications

- 10** A risk assessment has been completed.

The following risks will arise if the recommendations are implemented, and I propose to mitigate these risks in the following ways:

- Contractors go into liquidation – mitigation is checking financial performance and accounts – to minimise risk of selecting a contractor with lack of financial capacity
- Possible high increases in construction costs as a result of general market conditions in the construction industry – we will mitigate some of this risk by adding a 5% contingency to estimates

If the recommendations are implemented, the residual risks that cannot be mitigated fully are:

- Significant rise in build costs due to uncovering structural failings with the building at Saxonbury

The risk of not doing anything to the building is that the building could become a target for squatters. Additionally, empty buildings not only attract anti-social behaviour, but the fabric of the building deteriorates more rapidly, leading to higher renovation costs.

Equality Screening

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The assessment identified: The decision was found to have no impact on any of the protected groups.

Appendices

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| Appendix A: | Saxonbury site plan |
| Appendix B: | Equalities Impact Report |