

Body: Cabinet

Date: 4 September 2013

Subject: Housing Investment in Eastbourne

Report Of: Senior Head of Community

Ward(s): All Wards

Purpose:

- To request Cabinet approval for the use of housing and economic development related financial resources up to a total limit of £1,919,000 to contribute towards the Support for Housing and Economic Progress (SHEP) initiative by developing 20 homes for affordable rent.

Decision Type: Key Decision

Recommendation: Cabinet is recommended to approve:

1. That the £1,919,000 included in the approved Capital Programme be set aside for the Support for Housing and Economic Progress (SHEP) initiative to provide 20 homes for affordable rent, located primarily but not exclusively within the Town Centre and Devonshire areas of Eastbourne.
2. That Eastbourne Homes Limited (EHL) is requested to accept full responsibility for the delivery of the SHEP initiatives subject to the conditions detailed under paragraph 2.4.8 of this report.
3. The delegation of authority to the Chief Finance Officer and Senior Head of Community in consultation with the Cabinet Portfolio Holder for Finance and the Cabinet Portfolio Holder for Community the authority to agree a Service Level Agreement between the Council and EHL for the delivery of the SHEP Initiative.

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1.0 Introduction

- 1.1 This report considers how the Council can effectively make use of its ability to help increase the range of affordable homes available to the people of Eastbourne and to help reshape our urban environment to better suit today's commercial and residential trends.
- 1.2 Eastbourne faces a growing demand for affordable, secure homes. The cost of renting privately is outstripping the incomes of many households and changes to the social security system mean that there will be less help

available to some households to make their rent payments. As the largest provider of social homes in the Borough, the Council faces increased pressure on its housing waiting lists. The same situation applies to housing associations working in Eastbourne.

1.3 The Council's corporate objectives include:

Prosperous Economy

- A wide range of employment opportunities

Thriving Communities

- Support for families and young people to reach their full potential
- A high level of community volunteering and involvement in our neighbourhoods
- A wide range of quality homes including affordable housing for those in need

1.4 The Council has an opportunity to help increase the availability of affordable housing, to bolster the economic development of the town and help more people to have a secure home. This report considers this opportunity with appropriate recommendations for further action.

2.0 Encouraging new uses for existing buildings

2.1 Background

2.1.1 Cultural changes in the way the retail and office space markets work have had an impact on the commercial areas of Eastbourne. The national trends towards internet shopping, shopping malls and out of town shopping have all been felt in Eastbourne. The same applies to changes in working practices, with an increase in mobile and home working. Although there have been benefits for consumers and workers, there have also been some negative outcomes. These include a growing number of empty or short life retail and commercial units in areas away from the core retail hubs of the town.

2.1.2 In both cases, empty shops and offices represent a wasted resource that could with appropriate vision and investment host new uses, including homes to help alleviate the shortage of affordable, secure accommodation. The Government has recognised this by introducing a temporary exemption until May 2106 from normal planning controls in cases where the development converts empty offices into homes. It is now consulting on extending this to embrace empty shops.¹ Empty and unused buildings also present a negative image of the town in that it could be argued that the economy is not sufficiently buoyant to support its commercial infrastructure.

2.1.3 Empty and unused buildings also present a negative image of the town in that it could be argued that the economy is not sufficiently buoyant to

¹ Ministers to make it easier to 'turn shops into homes' – BBC News August 5th, 2013 (<http://www.bbc.co.uk/news/business-23581304>) and New planning rules will breathe life into rural communities and town centres – Department for Communities and Local Government August 6th, 2013 (<https://www.gov.uk/government/news/new-planning-rules-will-breathe-life-into-rural-communities-and-town-centres>)

support its commercial infrastructure.

2.2 *Support for Housing and Economic Progress (SHEP) initiative*

2.2.1 There is a shortage of land in Eastbourne on which to develop new affordable homes. Demand for affordable and secure rented homes is extremely high with a waiting list at the beginning of the current financial year of circa 2,600 compared to a total of 217 lettings made by the Council and housing associations in 2012-13. Demand for smaller homes is particularly strong, influenced by the impact of the recent changes to the social security system that reduce housing support for people whose homes are deemed to have more bedrooms than they need.

2.2.2 Building on the work already done to date by the Council's Difficult Properties Group and Housing Specialists, one of the needs prioritised for the Housing and Economic Development Partnership² (HEDP) is to bring back into use redundant or empty property. With appropriate investment, such properties could be brought into use as homes to address housing demands. Such an approach would:

- Contribute to the wider outcomes of the Council's housing strategy 'At Home in Eastbourne'.
- Create more accessible housing opportunities for local people.
- Support economic development by helping to focus commercial and retail activity in sustainable blocks or nodes and reducing the negative impact of empty or redundant commercial premises have on the area.
- Enhance the appearance of the town by improving and revitalising currently under used or empty properties.

2.2.3 To deliver in a coherent and strategic way, a programme of bringing non-residential properties into use as homes and to help create a more sustainable commercial property base the Council's Housing Specialists and the HEDP have created the Support for Housing and Economic Progress (SHEP) initiative. SHEP could include two areas of activity:

- The purchase and repair of empty or poor condition residential properties for use as affordable homes, either to rent or buy
- The purchase and refurbishment of empty or redundant commercial properties for use as affordable homes, either to rent or buy.

2.2.4 Delivering SHEP will be achieved through a range of individual projects These will evolve over the next few years as the Council develops its capacity and capability to deliver new approaches to housing and economic development. However SHEP as a whole has been designed to create the scope to consider embracing a range of funding opportunities, including from the Council itself, the private sector government agencies.

2.2.5 The first of these projects is detailed in this report. This is an investment programme to, over the period 2013 and 2015, deliver twenty affordable rented homes, making use of existing but currently under-used buildings.

² The Housing and Economic Development Partnership (HEDP) is a joint venture by Eastbourne Borough Council (EBC) and Eastbourne Homes Limited (EHL) to develop and deliver investment projects that will contribute towards developing Eastbourne's wider economy. The HEDP is overseen by a Project Board with members drawn from both EBC and EHL. Operationally, it is managed by EHL.

2.3 *SHEP 2013-2016*

- 2.3.1 The Council's Housing Specialists and the HEDP team have been exploring viable options to contribute to SHEP. This work has resulted in the identification of a number of possible opportunities to purchase underused or empty commercial properties which can be converted into residential homes. The properties under consideration are made up of a mix of residential and retail buildings. They are located primarily in the Town Centre and Devonshire areas of Eastbourne. Purchase and redevelopment of these properties would constitute the core of the SHEP 2013-2106.
- 2.3.2 Initial discussions have taken place with a number of property owners who have expressed an interest in working more closely with the Council. To allow the discussions to move forward, it is now necessary for the Council to be in a position to respond quickly and positively to firm offers presented by property owners. This means that negotiating officers need to have the confidence of being able to agree purchases in the knowledge that funds are available for prompt conclusion of such transactions.
- 2.3.3 By making available a sum of money to be drawn upon with the minimum of delay will enhance the ability of the negotiating officers to reach advantageous deals with property owners. This may include direct negotiation or purchase through auctions or sealed bidding processes. It would therefore add to the ability of the SHEP to deliver a range of investments if it were to have ready access to funding for a programme of property purchases and redevelopment.
- 2.3.4 A detailed viability study undertaken by both the Council's Housing Services team and Eastbourne Homes Limited has been undertaken to identify an appropriate property mix that would add to the Council's housing stock and contribute to wider regeneration of the Town Centre and Devonshire areas of Eastbourne:
- Twenty new flats for Affordable Rent – these homes will be created by converting former commercial/retail premises for residential use and will become part of the Council's own housing stock, let according to the Council's Tenancy Policy.
- 2.3.5 The viability study has been informed by:
- An evidenced review of current residential and commercial property sales values in the Town Centre and Devonshire areas of Eastbourne.
 - An evidenced review of rents in Town Centre and Devonshire areas of Eastbourne – market rents are used to set Affordable Rents³.
 - An evidenced review of construction costs, using information derived from current Council refurbishment programmes to sheltered units and Decent Homes works to existing stock
 - A review of housing need for affordable housing, taking into account changes to demand patterns arising from recent and ongoing changes to the social security system, for example the bedroom tax/spare room subsidy.

³ 'Affordable Rents' are set at 80% of market rents.

- 2.3.6 Financial appraisals have taken into account the information noted above and have considered the cost of financing, maintaining and managing the homes within the Council's wider stock. The properties, if let at an affordable rent⁴ circa £97.60 per week, cover in full the cost of finance, acquisition, refurbishment, management and maintenance over a thirty year financing period.
- 2.3.7 Appendix A to this report provides a financial summary of the expenditure and income assumptions for the programme as a whole. The SHEP programme as a whole has a Total Scheme Cost (TSC)⁵ of £2,2789,000. A grant from the Homes and Communities Agency (HCA), towards the affordable homes, of £360,000 (see below – paragraph 2.3.8), has been secured and will offset the total cost, reducing the net investment to £1,919,000. For twenty homes, this is equivalent to a net cost of £95,900 per home.
- 2.3.8 To make the scheme viable within a 40 year payback period, the £1.919,000 residual cost will be met from borrowing (with the loan serviced by rental income) and a direct capital contribution of £311k from capital resources.
- 2.3.9 A sum of £1,919,000 has already been included within the approved capital programme for housing and economic development (Minute 89.6, Cabinet February 6th, 2013 refers). It is being proposed that this sum is now set aside to contribute towards the Support for Housing and Economic Progress (SHEP) initiative. Cabinet is therefore asked to approve that the £1,919,000 included in the approved Capital Programme be released to contribute towards the SHEP initiative to provide 20 homes for affordable rent, to be owned by the Council, located primarily but not exclusively within the Town Centre and Devonshire areas of Eastbourne.
- 2.3.10 The HCA Empty Homes Scheme is in addition to a similar project being delivered by the YMCA in Eastbourne. The Council's Housing Specialists have been closely involved in the YMCA project to make sure it is complementary to other activity being promoted to bring empty properties back into use.
- 2.4 *Accountability and Delivery of SHEP for 2013-2016*
- 2.4.1 There are a number of options for delivering SHEP for 2013-2016. These are:
- Outsource the programme to a third party
 - The Council's internal Housing Services team
 - EHL
- 2.4.2 Outsourcing to a third party would require the work to be tendered. This would add to the time lag between taking a decision to progress SHEP. While the Council's internal Housing Services team have the knowledge and

⁴ Affordable Rents' are set at 80% of market rents

⁵ The Total Scheme Cost is the complete expenditure needed to develop a scheme from inception to completion ready for occupancy. It includes design, planning and construction work.

capability to deliver the programme, the current capacity within the team as a whole is not sufficient to take on this additional work.

- 2.4.3 EHL, as the host for the HEDP, does currently have the capacity to deliver SHEP 2013-2016. EHL has also gained experience of this kind of work by delivering for the Council the £60,000,000 Decent Homes Programme. In addition, the HEDP has available to it a budget of £200,000 for the period 2013-2014 which can be used to fund any administrative and operational costs that will be incurred through the early stages of the implementation of SHEP. The HEDP has a Project Board, with membership drawn from both the Council and EHL that could usefully provide programme level review and operational control of the SHEP initiative.
- 2.4.4 As a subsidiary of the Council, EHL can be asked to take on this work without the need to delay the project through a lengthy procurement exercise.
- 2.4.5 The client/contractor structure that currently prevails between the Council and EHL would in effect be extended to embrace SHEP. This means that EHL would be advised of a total budget for the project and the required outcomes to be delivered within that budget envelope. These outcomes would include tangible training and employment initiatives. The risk for delivery would rest with EHL.
- 2.4.6 To allow the Council to maintain overall control over the use of its funds and make sure that the project delivers against the Council's strategic priorities, EHL's performance on SHEP would be monitored and overseen by the Council's Housing Services team. This includes making sure the deadline set by the HCA as a condition of its financial support is met in full which stipulates that all properties must be ready for use as homes by March 31st, 2015. This approach would replicate the arrangements currently in place for the core management and maintenance services provided by EHL for the Council's tenants.
- 2.4.7 Similarly, the Council would as the funding agent and owner of the assets being created by SHEP, have in extremis a power of veto over the work of EHL. This would only be exercised if the SHEP initiative put the Council at financial, reputational or strategic risk.
- 2.4.8 Cabinet is therefore recommended to approve that EHL to be requested to accept full responsibility for the delivery of the SHEP initiative to EHL subject to the following conditions
- EHL takes on full operational and financial responsibility for managing the programme from inception to completion and for delivering the programme within budget and against the targets and outcomes set by the Council.
 - The HEDP Project Board provides programme level review and operational control of the SHEP initiative.
 - Acquisition and redevelopment of any individual property will only be progressed if the result is a financially viable development.
 - Each acquisition will be approved by the Council's Housing and Finance specialists before contracts for purchase are exchanged.
 - The SHEP initiative will by March 2015 deliver 20 homes for rent by

the Council at Affordable Rents.

- Social Value⁶ will be considered important and assessed as such for all associated contracts.

2.4.9 Subject to EHL agreeing to take on the SHEP initiative, Cabinet is asked to approve the delegation of authority to the Chief Finance Officer and Senior Head of Community in consultation with the Cabinet Portfolio Holder for Finance and the Cabinet Portfolio Holder for Community the authority to agree a Service Level Agreement between the Council and EHL for the delivery of the SHEP initiative.

3.0 *Funding SHEP for 2013-2016*

3.1 The total scheme cost is £2,279,000. The Council has successfully bid for HCA funding of £360,000

3.2 The residual £1,919,000 will be funded through borrowing and a direct capital contribution of £311,000. On this basis the total scheme cost is paid back within 40 years.

4.0 Risk Management

4.1 There are a number of risks that the Council will need to be managed within the three initiatives covered in this report. These are considered below.

4.2 SHEP Risk Summary

4.2.1

Risk	Mitigation	
Cost of acquisition too high	Acquisitions do not go ahead	
Cost of refurbishment is too high and/or cost overruns	Robust pre-purchase assessment undertaken	Competitive tender used to reduce costs
Borrowing costs increase	Funds are secured using long term interest rates in line with viability assumptions	
Market rents fall, affecting Affordable Rent base line	Cost of properties pooled within HRA to allow for cross subsidy with existing properties	Properties disposed of to recover costs

⁶ Under the Public Services (Social Value) Act 2012, and as part of the Council's Best Value duty, the Council has to consider overall value, including economic, environmental and social value, when commissioning a contract and how it may improve these things during its term.

5.0 Consultation

- 5.1 The Council has invested considerable resources to date in identifying sub-standard or empty properties and making connections with owners. The natural extension of this work will be to use this ongoing consultation to ease the acquisition of suitable properties.
- 5.2 The SHEP initiative will provide a catalyst for private investment in the area as the renovation and conversion work will create an air of positive activity. The reduction of the number of empty shop and commercial units has the potential to change positively the relationship between supply and demand. This in itself will prompt further consultation with local business groups to identify businesses who may wish to make the most of the opportunities provided by the SHEP.
- 5.3 The extensive consultation work for 'At Home in Eastbourne', the Council's housing strategy, showed that there is a considerable desire amongst local people to buy a home of their own or to rent an affordable, secure home from a responsible social landlord. The proposals in this report will demonstrate a positive response by the Council to that consultation work.

6.0 Resource Implications

- 6.1 The identification of appropriate properties and managing all works necessary to make them suitable for sale and for letting will be delivered by the HEDP and EHL.
- 6.2 Acquisition of the selected properties will require input from the Council's Legal and Estates specialists although much of the preparatory work will be undertaken by EHL. There is sufficient capacity within the current teams to be able to absorb those elements of acquisition that will require Council input.
- 6.3 Strategic direction and oversight of the SHEP Initiative will rest with the Council's Housing and Finance Specialists, as part of their current monitoring role for EHL's work on behalf of the Council and their role in delivering the Council's Corporate Objectives and 'At Home in Eastbourne'.

7.0 Environmental, Human Rights, Community Safety Implications

- 7.1 Increasing the choices available to people who need a secure, affordable home and making the most effective use of all types of buildings in Eastbourne will lead to stronger, more vibrant communities and neighbourhoods. This will in turn improve the environment and community safety within Eastbourne will be stronger.
- 7.2 There are no Human Rights implications arising from this report.

8.0 Youth and Anti-Poverty

- 8.1 At present Devonshire Ward scores highly on deprivation indices – it is one

of the most deprived wards in East Sussex. Several initiatives have been undertaken to improve the situation, the most recent of which has been the successful award of Big Local funding to the local community. The SHEP will help complement this by improving the built environment.

- 8.2 The provision of addition of affordable homes will help provide more options for people who need to move to different accommodation to reduce the impact of changes being made to the support given by the Social Security system.

9.0 Conclusion

- 9.1 To deliver the Council's corporate outcomes of a more equitably prosperous Eastbourne, the SHEP initiative, as part of the HEDP, represents a positive way forward.
- 9.2 The provision of more homes close to the town's central business district, soon to be revitalised as part of the Town centre Redevelopment, will add to the appeal and vitality of the area.
- 9.3. The SHEP initiative will make a significant contribution towards the housing outcomes the Council wishes to see for Eastbourne.

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Appendix A: Financial summary of the expenditure and income assumptions for SHEP 2013-2015

The SHEP 2013-2015 scheme has been modelled on the following basis:

1. Scheme Assumptions

- Allowances for property acquisition costs, build costs and sales values are based upon the standard assumptions included in the attached table which have been arrived at after recent market research and a review of relevant recent data. These assumptions have been reviewed and agreed by senior officers at both EHL and EBC
- Build cost allowances have been made after an assessment of a number of sources for similar office to residential conversion projects including current Build Cost Information Service data, input from local cost consultancy practice FFT, discussions with contractors and data from other similar schemes known to the authors of this report
- On-costs, to include project management, planning, legal and design to planning have been allowed for at a range of 11% to 14% of the total works and acquisition costs after a review of relevant data as above.
- Rental income figures have been derived from a review and assessment of the local market carried out over the last month. Affordable Rent income has been assumed as 80% of market rent
- Allowances for voids, bad debts, service charges, management and maintenance costs have been established via consultation with Eastbourne Homes Ltd (EHL)
- Allowances for inflation and interest rates have been made following consultation with relevant officers of Eastbourne Borough Council (EBC) and EHL
- A summary of assumptions and outcomes is available for review from the Council's Strategic Housing Manager

2. Scheme Summary

- Twenty Affordable Rent homes, all 1 bed, 2 person

3. Scheme Finances

- Total scheme cost: £2,279,000
- Total HCA grant to affordable element: £360,000 (£18,000 per unit)
- Initial annual rental income after costs and deductions: £62,368.
- Repayment (repayment mortgage) in year 40.

This is commensurate with the accepted financing time of thirty years for new social housing.